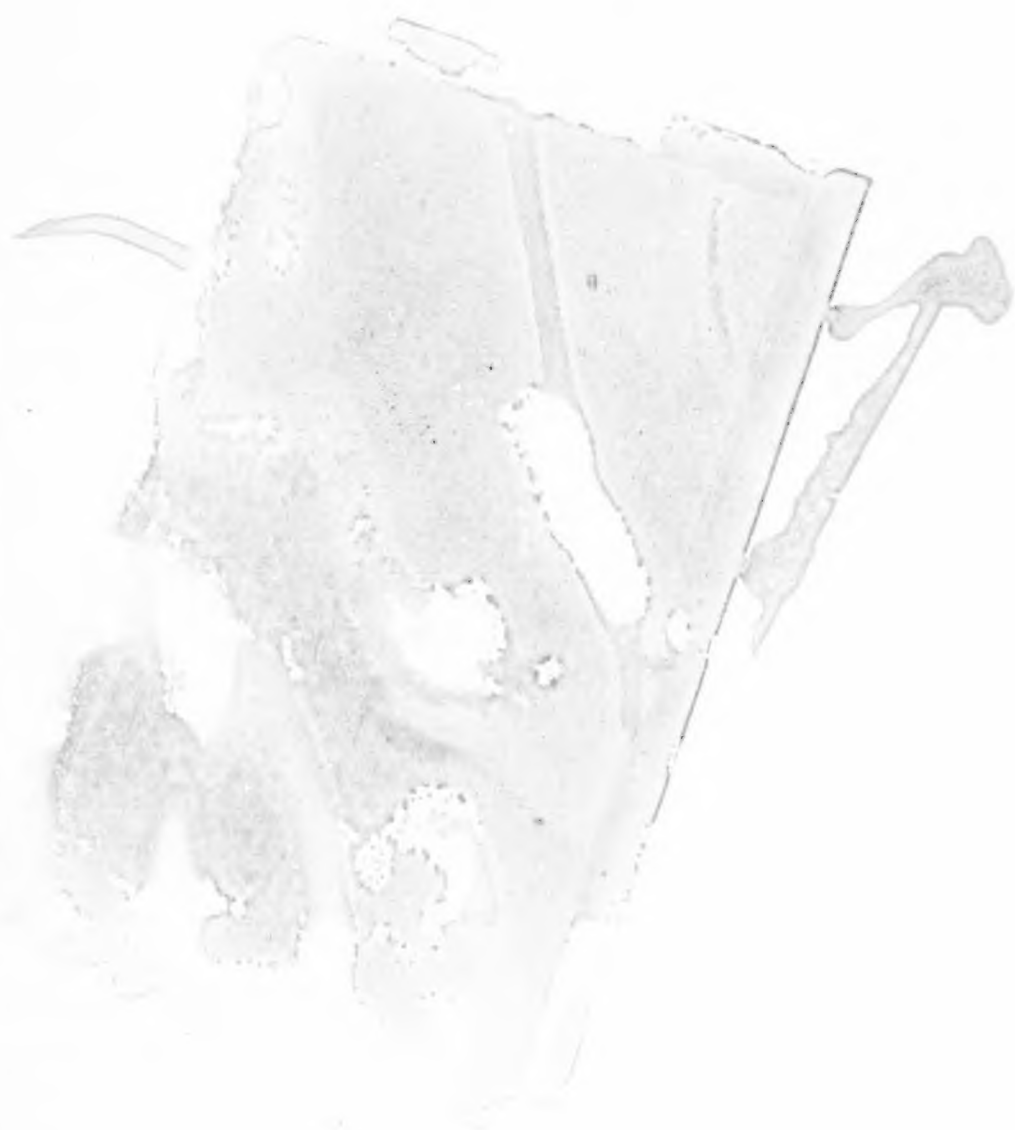




PROMISSORY NOTES, Bills of Exchange, and Cheques.

With some General Remarks on Contracts.

A REFERENCE BOOK FOR BUSINESS MEN
AND
A TEXT BOOK FOR COMMERCIAL STUDENTS.

BY

J. W. JOHNSON, F.C.A.,

Author of "Johnson's Joint Stock Company Book-Keeping,"
Joint Author of "The Canadian Accountant," Principal
Ontario Business College, Belleville, one of the Examiners
for the Institute of Chartered Accountants of Ontario,
and President of the Belleville Gas Company.

PUBLISHED BY ONTARIO BUSINESS COLLEGE.
BELLEVILLE, Ont., Canada.

SEVENTH EDITION.

REVISED AND ENLARGED.

BELLEVILLE:

PRINTED AT THE INTELLIGENCER PRINTING HOUSE, FRONT STREET.

1898.

PREFACE.

This work had its origin in the lectures delivered daily by the Author to the students of the Ontario Business College, commencing in the year 1877 and continuing to the present date.

It is an accurate, safe and trusty guide for business men in dealing with Bills and Notes, as it is based on wide, practical experience, close observation and minute study of the subjects of which it treats.

Accurate and comprehensive knowledge of Negotiable Paper is indispensable to the business man ; and it is essential in the training of those who are preparing to become business men. To furnish such knowledge in relation to Bills and Notes has been and is the aim of the Author in the several editions of this book.

J. W. JOHNSON.

ONTARIO BUSINESS COLLEGE, }
Belleville, Canada, 1898. }

[Entered according to Act of the Parliament of Canada, in the Year One Thousand Eighty Hundred and Eighty-Eight, by J. W. Johnson, at the Department of Agriculture.]

CONTENTS.

	PAGE.
Preface	2
Introductory	4
Common Law and Statute Law	4
Law Merchant	5
Contracts, Simple and Specialty	5 to 10
Statute of Frauds	7 to 8
Seal	8
Contracts Outlawed	10
Negotiable Paper	10
Promissory Notes	11 to 32
Legal Rate of Interest	22 to 23
An Act Respecting Interest	24
Power of Attorney	25
Signature by Procurator	26
Statute of Limitations	26 to 27
Indorsements	27 to 30
Guarantee	29
Protest by Notary Public	30 to 31
Waiving Protest	31
Noting	31
Book-Keeping in connection with Notes	33 to 36
Authorized Method of Working Discount	36 to 38
Discounting Notes Bearing Interest	39 to 41
Days of Grace	41 to 43
Lien Notes	43 to 45
I. O. U.	45
Drafts, or Inland Bills of Exchange	46 to 57
Bank Draft	57 to 59
Foreign Bills of Exchange	60 to 65
Par of Sterling Exchange, Explained	63 to 64
Letter of Credit, Circular Letter of Credit	66 to 67
Cheque Bank Cheques	67
Dollars Converted into Pounds	67
Pounds Converted into Dollars	67
Cheques on a Bank	68 to 76
Questions for Review, Introductory	77
Questions for Review, Notes	78 to 79
Questions for Review, Drafts	80 to 81
Questions for Review, Cheques	81
Institute of Chartered Accountants Examinations	82 to 84
Forms of Protests	85 to 89

INTRODUCTORY.

THE Act of the Imperial Parliament of the Empire, known as "The British North America Act," is the written Constitution of Canada, which brought the Dominion into existence, on the first of July, 1867. That Act gives to the Dominion Parliament alone the right to legislate upon the subject of Promissory Notes, Bills of Exchange and Cheques.

In the year 1890 the Parliament of Canada enacted a statute known as the "Bills of Exchange Act, 1890," by which previous legislation and decisions respecting Promissory Notes, Bills of Exchange and Cheques have been codified.

It is desirable that a business man should have some knowledge of the principles of law, particularly in its application to commerce, and more especially in relation to Bills and Notes. Ignorance of it can never be successfully urged in prosecuting or defending an action.

COMMON LAW

is the unwritten Law, that has come to us by tradition, custom and the decisions of the courts, based on well-known general usage, and common-sense principles of justice. It has been appropriately called "Judge-made Law."

STATUTE LAW

is the written Law, or Acts of Parliament, made from time to time by the Legislatures, and when there is any conflict its enactments wholly over-rule the Common Law.

The History of Bills of Exchange and Promissory Notes shows how the usages of merchants, bankers, and traders became the Common Law in regard to these instruments. When disputes arose in connection with them, the courts simply required that the general usage among merchants and bankers should be proved, and this being judicially ascertained, it received the sanction of legal decision, and consequently became incorporated into the Common Law. These legal decisions, again, as precedents, became the basis of other decisions. This Law-making power of merchants is known as the

Law-Merchant (Lex Mercatoria),

which the courts of justice are bound to know and recognize. The controlling effect of the Law-Merchant is well illustrated in the transfer of Notes and Bills from one person to another. By the rule of the ancient Common Law, no property that was not actually in possession (or that could be reduced into possession) could be transferred. Bills and Notes only express the legal right to possession of money in the future. But merchants had established the custom of transferring Bills of Exchange by delivering from hand to hand, or by writing a name on the Bill, which not only transferred the right of action, but created an unwritten conditional contract of guarantee to any one who might be the lawful holder. Not only did the Law-Merchant thus overcome the general principles of the Common Law, but to some extent the Statute of Frauds (explained further on) was surmounted.

Another illustration of the Law-Merchant is seen in the exemption of Bills and Notes from the ordinary rules that apply to contracts and the Law of evidence.

Contracts.

Promissory Notes and Bills of Exchange are the commonest forms of Contracts. They enter more than any other into the daily commercial life of the people of any civilized country, and into the transactions between the various nations of the world.

When men enter into other forms of contracts—such as those represented by deeds, mortgages, bonds, etc.—they usually, and indeed of necessity, resort to a trained solicitor for direction and guidance, but in giving and receiving Notes and Bills, the individuals concerned should be able, without recourse to a lawyer, or even to a banker, to deal intelligently and safely with them, under all ordinary circumstances.

Written, as it is, by a practical business man, and having as its basis practical experience and observation, and not mere theory or technicality, this work has imparted reliable knowledge of Bills and Notes to thousands of students and business men, and to other classes of the community that have to deal with them.

While it is desirable, as has been said before, that a reliable solicitor should be a person's guide in making other Contracts than Bills and Notes, yet there are certain fundamental principles relating to Contracts in general that should be universally known.

There are Two Kinds of Contracts.

Contracts are divided into two classes, which are known as *Simple Contracts* and *Specialty Contracts*.

Simple contracts may be made either by word of mouth (called parole) or in writing. The writing is not the Contract; it is the evidence that testifies what the Contract was.

Specialty Contracts must not only be in writing, but must likewise be under seal.

A consideration, that is to say an equivalent offered by the one party and accepted by the other, is essential and must be expressed, in every Contract not under seal. When suing upon a Simple Contract the consideration must in general be proved, but this would not be necessary when enforcing a Specialty Contract.

Notes and Bills are excepted from the general rule that requires the consideration to be proved on Contracts not under seal.

A consideration may be good or valuable, and need not be money or goods; it may be to do or refrain from doing. Marriage is an example of a good consideration in a Contract. Contracts made on Sunday are void.

A Simple written Contract is duly made when it is signed and *delivered*; a Specialty Contract is duly made when it is signed, *sealed* and *delivered*, that is, wholly executed.

The Statute of Frauds.

There are some simple contracts which the law requires to be in writing. The Statute of Frauds, passed in the reign of Charles II. (1676), which is still in force in Canada (as all English Common law, and all applicable Statute law, prior to 1791, is, unless it has been repealed or modified by Canadian legislation), requires that a verbal promise shall not be sufficient in certain cases, but that the agreement or some memorandum of it shall be in writing, and be signed by the party to be charged therewith, or by some one authorized to sign for him. The principal cases are:

1. Where a man promises to pay the debt of another person, or answer for his default. For example, a man steps into your store and says, "I will be responsible for goods you may sell John Smith, to the amount of \$50.00." If, in your ignorance of the law, you did not cause the guarantor to put the agreement in writing, even though you could bring a dozen people to swear to the verbal statement, you would have no legal hold upon him, nothing beyond the moral claim, and that might not be of any value.
2. To enforce the sale or purchase of goods to the value of over \$40.00, the contract must be in writing, unless there has been a part of the purchase money paid upon it (often called earnest money), be it ever so small, or a partial delivery and acceptance of the goods, even the smallest portion of them.
3. Where an executor or administrator promises to be liable out of his own estate.

4. When an agreement is made which is not to be performed within a year. For instance, if you engaged with a man to serve him as a book-keeper for two years, the agreement would not be binding, unless it was made in writing. Again, a contract to supply goods or furnish labor or material at a certain price would not be binding on either of the parties to a verbal contract for a longer definite period than one year.

5. All contracts affecting land or any interest in land, such as a contract to purchase, must be in writing. Instruments that are intended to pass an estate in land, such as deeds and mortgages must not only be in writing, but under seal. A lease for any term not more than three years may be made verbally, but for a term beyond three years it must be in writing and should be under seal. An offer of a contract may be recalled, but not an acceptance of an offer.

What Constitutes a Seal.

A Seal in this case means any adhesive thing, or distinctive mark, that you may adopt as your Seal, and attach to or define on the instrument.

Who are Competent to make a Contract.

Any person of either sex who is twenty-one years old and of sound mind, is competent to make a Contract. A person who is under the age of twenty-one years is, in the eyes of the law, an infant, and incapable of making a Contract. Many persons are under the impression that a woman is of age at eighteen. This is a mistake.

It is not competent for any one to make a Contract against public policy, or in restraint of trade. For example, it would not be legal for a man selling out a business to undertake that he would never engage in the same business again. It is held to be against public policy for any citizen to thus restrict his future actions.

A minor (a person under age) could not engage in business on his or her own account, but it would be competent for a minor to contract for necessities suitable for his or her station in life.

A Contract with a corporation (say a joint stock company or municipality) must be within the scope of its charter, and to be binding must have the corporation seal attached. This would not be required in connection with Promissory Notes and Bills of Exchange, issued or drawn, indorsed or accepted in the ordinary course of its business.

An agent may contract for his principal within the scope of his authority, which is usually conferred by an instrument under seal called a Power of Attorney.

The authority conferred by Power of Attorney is called "Procuratorship." When signing by Procuratorship (say an accountant signing a cheque, drawing a draft, accepting a draft, indorsing, etc.,) sign thus :

ROBINSON & JOHNSON,
per pro. W. J. Osborne.
(or p. p.)

It is done a little more formally in such an instrument as a deed or mortgage, as

JOHN JONES,
by his attorney, Richard Roe.

A valid and binding Contract may be made by written correspondence or telegram. All that is required is an offer and an unconditional acceptance of it. An offer that has not been accepted can be withdrawn. Letters sent by you that are intended to constitute a Contract, should be copied into your copying press book, and those you receive in such connection should be carefully filed for reference. When a letter is posted it ceases to be the property of the writer ; it has become the property of the person, firm or corporation to whom it is addressed.

The words "Without Prejudice," added to a written offer mean that the letter cannot afterward be used in evidence against the party writing the letter and using the words ; and in negotiations for a compromise, if not concluded on the basis offered, the matter reverts back to the original position as though no negotiations had occurred.

When Contracts Are Outlawed.

Simple Contracts for debts not referring to land are outlawed after six years from the date of maturity, or from the date of the last payment on account, or from the last written acknowledgment; Contracts affecting land, ten years; and personal covenants under seal, twenty years from the time at which the right of action arose. For instance, (1) a Note made April 5th, 1893, at three months, would be Outlawed after July 8th, 1899, if, in the meantime, no payment had been made upon it, or no written acknowledgment had been given in reference to it. (2) The land secured by a mortgage upon which no payment had been made for 10 years after maturity, or regarding which no written acknowledgment had been given within that time, would be released at the expiration of that period. (3) The personal covenants for payment on the same mortgage would not be Outlawed for twenty years, but only six years arrears of interest can be collected.

Negotiable Paper.

Negotiable Paper is that which may be transferred from one person to another, the holder for the time being possessing all the rights of the party to whom the instrument was originally given by the maker. It embraces Promissory Notes, Drafts (or Bills of Exchange) Cheques, Bills of Lading and Warehouse Receipts. In this book Notes, Bills and Cheques only are dealt with.



PROMISSORY NOTES AND BILLS OF EXCHANGE.

Promissory Notes.

A person has become indebted to you either for goods sold or work done, and you have duly placed the amount to his debit in your ledger; but you find that it will be much more advantageous to you to have this resource or asset of your business in another form, so you obtain from your debtor his Promissory Note, or get him to accept your Draft. Should you desire that the amount owing to you be paid to some one to whom you are indebted, then you will draw the Draft payable to his order. Your object in obtaining the written obligation is three-fold, and there will be these

Advantages.

1st. It is in itself an evidence of the debt, requiring no confirmation (unless the signature be challenged) nor proof of the consideration given for it, nor the production of the original entry.

2nd. It fixes a definite time, and usually a stated place, for the payment, so that the holder, when it falls due, will not have the trouble of hunting up the maker, nor the maker of finding the holder. The former having provided the funds at the place where he promised to pay it, the holder has simply to present it there and obtain the amount, a matter of much convenience to both parties.

3rd. It is an instrument upon which, after indorsing it, you may borrow money from a bank or private lender. This is called discounting. In other words, by the medium of the Bill or Note as security, you obtain the use of other people's capital, paying for the loan a discount from the face of the instrument; which is the simple interest, in advance, upon the whole amount for the time it has to run, including the days of grace. See "Discounting Notes," further on.

Disadvantages.

It is well to point out just here that there may be a disadvantage sometimes in holding a Note not due against a debtor, for it might be desirable to sue him for the debt prior to the maturity of the Note, which could not be done. Again, if a sum of money is due to you for which you have a specific and preferential remedy, this particular benefit may be lost by taking a Note to cover the amount. An instance of this is a landlord's right of distress for rent.

Definition of a Promissory Note.

A Promissory Note is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person, or to bearer.

A determinable future time means in connection with a Note or Draft :—

(a) At sight, or at a fixed period after date or sight.

(b) On or at a fixed period after the occurrence of a specified event which is certain to happen, though the time of happening may be uncertain.

An instrument expressed to be payable on a contingency is not a Bill or Note, and the happening of the event does not cure the defect.

If a Note or Draft is issued undated, any holder may insert therein the proper date of issue or acceptance. See also pages 21 and 22, "Altering a Note."

A Promissory Note is inchoate and incomplete until delivery thereof to the payee or bearer.

Parties to a Note.

The person who gives a Note is called the Drawer, Promissor, or Maker ; the person in whose favor it is drawn is called the Payee ;

if he signs his name upon the back for the purpose of transferring or guaranteeing it, he becomes the Indorser, and if he names the person to whom he transfers it, the latter is called the Indorsee; either of these, or anyone in possession of a Note, may be called a Holder.

One Partner of a trading partnership may make Notes for partnership purposes within the scope of the business, and bind the other partners by the use of the firm name, but this is not so in the case of a partnership within the scope of whose business the making of notes does not usually fall as a necessary and incidental result.

Forms of Notes.

Notes may be made (1) non-negotiable, (2) negotiable by indorsement, (3) negotiable without indorsement. The first is made payable to the individual *only*, and can only be transferred by assignment, which carries with it all offsets and legal defences that may exist between the original parties; the second is payable to order, and is transferred by the indorsement of the holder (the payee) completed by delivery, which makes the indorser liable for payment in the event of the maker failing to pay, provided he (the indorser) has been legally notified of dishonor, as explained at page 30; the third is payable to bearer, and is transferred by delivery, just as a Bank Note is passed from hand to hand. Where, in a Note payable to order, the payee or indorsee is wrongly designated, or his name is mis-spelt, he may indorse it as therein described, adding, if he thinks fit, his proper signature. A Note may be transferred either before or after it is due. When taken *bona fide* before maturity the assignee is not affected by any circumstances of which he had no notice, existing between the antecedent parties to the Note. When received after maturity, the assignee (indorsee) takes the Note subject to all the equitable rights existing between the parties.

A Non-Negotiable Note.

\$100.00

BELLEVILLE, October 26, 1898.

Three months after date I promise to pay to William McCabe, only, at the Bank of Montreal here, the sum of One Hundred Dollars, for value received.

JOHN SMITH.

A Note Negotiable by Indorsement.

\$387.80

TORONTO, October 26, 1898.

Five months after date I promise to pay to the order of E. A. Wills the sum of Three Hundred and Eighty-Seven $\frac{80}{100}$ Dollars, at the Canadian Bank of Commerce in Toronto, for value received.

JOHN SMITH.

A Note Negotiable Without Indorsement.

\$50.00

HAMILTON, October 26, 1898.

Thirty days after date I promise to pay to William Green or bearer, at my office in Hamilton, the sum of Fifty Dollars, for value received.

JOHN SMITH.

A Note Payable on Demand.

\$35.00

MONTREAL, Oct. 26, 1898.

On demand, for value received, I promise to pay to the order of W. B. Robinson, the sum of Thirty-Five Dollars.

JOHN SMITH.

Where a note payable on demand has been indorsed, it must be presented for payment within a reasonable time of the indorsement ; if it is not so presented, the indorser is discharged.

In determining what is a reasonable time, regard shall be had to the nature of the instrument, the usage of trade, and the facts of the particular case.

A Joint and Several Note.

\$75.00

BELLEVILLE, October 26, 1898.

Six months after date we jointly and severally promise to pay to the order of S. G. Beatty the sum of Seventy-Five Dollars, at the office of the Dominion Bank in Belleville, for value received.

HENRY BROWN,
JOHN SMITH,
JAMES G. LEONARD.

Where a Note runs "I promise to pay," and is signed by two or more persons, it is deemed to be their joint and several note.

The holder of a joint and several note has recourse against all the makers, individually and collectively; from any of whom he is entitled to collect the full amount. Protest is not necessary on dishonor, if there be no indorser on it. Should the holder be obliged to sue, and recover the amount from one of the parties, that party would have recourse against the others for their proportions, unless they had joined for his accommodation. The order in which the names appear makes no difference in the liability; the position of joint and several makers or joint makers being altogether different from that of indorsers. See the effect of indorsing and the position of indorsers, further on.

Interesting Question and Answer.

(From The Toronto Mail and Empire's Legal Department.)

W. R. Hay.—Qu.—I hold a joint promissory note, made by two persons three years ago "payable 12 months after date with interest at six per cent. per annum until paid." The interest has been paid each year by one of the makers. Is the other maker still liable on it? Ans.—If it is a joint note, signed by two parties, they are both liable on it as makers, and neither of them is relieved by want of notice of non-payment at maturity. If one of the makers is really only a surety for the other, to the knowledge of the payee, then there should have been notice of dishonor when the note came due. But, *prima facie*, they are both makers, and liable as such.

A Marksman's Note.

A man who cannot write is known as a marksman, which means that he makes his mark between his christian and surname, already written for him. Be careful when obtaining such a note to read it over to the maker in presence of the witness who is present to see him make his mark. Example :--

RICHARD ROE	}	Witness.	JOHN X DOE.
			his mark

When signing any instrument as a witness, take care to write witness over or after your name. In the above example Roe would be a joint and several maker if he had not taken that precaution.

A Joint Note

reads "we jointly" instead of "we jointly and severally." When suing upon a joint note you have to make all the makers parties to the action. The joint and several is the better form for the holder, because any maker can be sued individually.

The Rights of a Third Party in a Negotiable Note,

No arrangement between the maker and payee of a Negotiable Note can affect the right of a Third Party to collect who acquired the instrument in due course, that is to say, in good faith, before maturity, for valuable consideration.

The Rights of an Assignee of a Non-Negotiable Note.

1. Transferring by Assignment a Non-Negotiable Note, (the form is: "In consideration of \$——, I hereby assign all my right, title and interest in the within Note to ——" and the signature of the assignor) the assignor cannot transfer to the assignee more than he himself possesses,—for example, Henry Ellis gave John Wilson a Non-Negotiable Note for \$300. Wilson assigned it to Alex. Thomson. After it was given, and before it was assigned, Wilson became indebted to Ellis in the sum of \$100, and this amount Ellis has the right to set off against the Note when the

assignee, Thomson, presents it for payment. Had it been a transfer of a negotiable instrument, payable to bearer or order, the maker would have been bound to pay the bona fide third party the full amount, irrespective of the debt which the payee owed him. This example illustrates the difference between a Negotiable and a Non-Negotiable Note.

Another Case in Point.

(From the Toronto Mail and Empire's Legal Department.)

I. S. B., Harlem.—Qu.—A gave a note to B, which is not made payable to order or to bearer; before it is due B becomes indebted to A in more than the amount, and then endorses it to a third party, who is now the holder. Can the holder collect the amount of the note from A? Ans.—Under the old law this note was not negotiable. It could not be transferred to another by delivery, or by the mere indorsement of the transferor's name, so as to render the maker liable to the holder. By his indorsement of the note, B could render himself liable to the holder, but the maker would not thereby be made liable to the holder. It could not be assigned by B to C, like any other contract for the payment of money, because the law allowing assignments of such contracts does not apply to promissory notes. The law was slightly changed in 1890, by the Bills of Exchange Act of that year, which makes a note of this kind negotiable, unless the words "payable to B only," or "not transferable," or some such other similar words are written on it, indicating that it is not to be negotiated, and that it is to remain merely a contract between A and B. If the note in question has any such words written upon it, it is useless and valueless in C's hands.

An Accommodation Note

is one on which a person lends his name as an indorser to enable the maker to borrow money upon it. It flatters some men's vanity to be told that such and such a bank would discount a Note if they would put their name on the back of it, and in a moment of weakness they

assume a liability for another which, very often, they can only be freed from by paying. To indorse and borrow money upon a Note that one holds against a debtor is a totally different matter, and is assuming no risk beyond what was incurred when the debt was contracted.

Form of an Accommodation Note.

William E. Brown has obtained John Smith's consent to indorse a note on which he (Brown) proposes to borrow money, or intends to give a creditor who is pressing him for security for a debt. Such a Note is *not drawn to the order of the lender or creditor, but to that of the indorser*, that he may be held as first security after the maker. The payee of a Note must be the first indorser.

\$150.00

BELLEVILLE, October 26, 1898.

Three months after date I promise to pay to the order of John Smith, at the Canadian Bank of Commerce here, the sum of One Hundred and Fifty Dollars, for value received.

WILLIAM E. BROWN

To be indorsed on back
JOHN SMITH.

A Note to be Paid after Death.

The question is often asked whether a Note made payable after death is good. It has all the essentials, being an unconditional promise to pay money at a determinable future time (death is a certain event). The legality of such a Note will depend upon the object for which it was given. If it was given for a *bona fide* debt it would be perfectly good; but if it was intended to take the place of a *will* it would be illegal.

A Lost Note.

Where a Note has been lost before it is overdue, the person who was holder of it may apply to the maker to give him another one of the same tenor, giving security to the drawer, if required, to indemnify him against all persons whatever, in case the Note alleged to have been lost shall be found again. If the drawer, on request as

aforesaid, refuses to give such duplicate note, he may be compelled to do so or to pay the amount due. In any action or proceeding upon a Bill, the court or a judge may order that the loss of the instrument shall not be set up, provided an indemnity be given to the satisfaction of the court or judge against the claims of any other person upon the instrument in question.

Important Judgment as to a Bank's Liability on a Lost Note.

MONTREAL, May 3, '97.

Some interesting questions in connection with banking law and usage, were decided by Mr. Justice Curran, this morning, in the cases of Israel Litman, versus the Montreal City and District Savings Bank, and the Montreal City and District Savings Bank, in warranty, against the Bank of Montreal, in warranty. Mr. Litman alleged that, in Brooklyn, N.Y., in December, 1893, W. Weneseiner and A. Barash had made their promissory note, undertaking to pay, in twelve months and fifteen days, to his order, \$250 at 43 Ewen street, Brooklyn. Mr. Litman endorsed the note and handed it to the City and District Savings Bank here for collection at maturity. The Bank had failed to collect the amount and Mr. Litman asked that it be condemned to return the note or pay the amount. The City and District Bank pleaded that it had received the note and that, in the ordinary course of banking business, it had transmitted the same to the New York office of the Bank of Montreal to have it collected or to have it duly protested for non-payment. The Bank of Montreal had in due course transmitted the note to the First National Bank of Brooklyn, which had had the Note protested for non-payment. In transmitting back the note and protest to the Bank of Montreal, the note had been lost in the United States mail. Therefore the City and District Bank pleaded that it could not be held responsible, and offered to give such security as would protect all concerned in the event of the subsequent appearance of the missing note. The City and District Bank also called in the Bank of Montreal, in warranty, to hold it harmless in the event of an adverse decision.

The Court held that, according to the law and usages of banking, the City and District Bank, having received the note for collection, had been justified in sending it to a perfectly solvent and reliable agent such as the Bank of Montreal, for collection in New York, and that the Bank of Montreal had been authorized and justified in sending the note for collection to the Bank of New York, in New York, also a reliable agent, and that the Bank of New York had been authorized to send the note for collection in Brooklyn, where the debtors had resided, to the First National Bank of Brooklyn, a first-class institution. The Note and protest had been lost, not by any fault of the City and District Bank, but by loss in the United States mail, which it had been justifiable to use, but over which the banks had no control, and if any damage had occurred to Mr. Litman on that account, the banks were not responsible therefor. The Court would declare the City and District Bank's offer of security to Mr. Litman good and valid and sufficient, and would dismiss the action, with costs, as well as the action in warranty.

Discrepancy Between Words and Figures.

Where the sum payable is expressed in words and also in figures, and there is a discrepancy between the two, the sum denoted by the Words is the amount payable.

Not Invalidated.

A Note is not invalid by reason only that it is ante-dated or post-dated, or that it bears date on a Sunday. That is to say, a Note need not necessarily be dated the day it was made; it may be dated back or dated forward by the proper party. In dating back or dating forward, the instrument might inadvertently be dated on a Sunday. While such a Note would not be void, it is well to keep in mind that a Note actually made on a Sunday, or based on a contract made on a Sunday, would be void.

A Holder in Due Course.

A Holder in Due Course is a Holder who has taken a Note or Bill, complete and regular on the face of it, under the following conditions, namely :—

(a) That he became the Holder of it before it was overdue, and without notice that it had been previously dishonored, if such was the fact;

(b) That he took the instrument in good faith and for value and that at the time it was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

The title of a person who negotiates an instrument is defective when he obtained the Note or Bill, or the acceptance thereof, by fraud, duress, or force and fear, or other unlawful means, or for an illegal consideration, or when he negotiates it in breach of faith, or under such circumstances as amount to fraud.

A Holder, whether for value or not, who derives his title to a Bill or Note through a Holder in due course, and who is not himself a

party to any fraud or illegality affecting it, has all the rights of that Holder in due course as regards the acceptor and all parties to the Bill or Note prior to that Holder.

Note given for a Patent Right.

Every Bill or Note, the consideration of which consists, in whole or in part, of the purchase money of a Patent Right, or of a partial interest, limited geographically or otherwise, in a Patent Right, shall have written or printed prominently and legibly across the face thereof, before the same is issued, the words "Given for a Patent Right," and without such words thereon such instrument and any renewal thereof shall be void, except perhaps in the hands of a Holder in due course, without notice of such consideration.

The indorsee or other transferee of any such instrument having the words aforesaid so printed or written thereon, shall take the same, subject to any defense or set off in respect of the whole or any part thereof, which would have existed between the original parties.

Every one who issues, sells or transfers, by indorsement or delivery, any such instrument not having the words "Given for a Patent Right" printed or written in manner aforesaid across the face thereof, knowing the consideration of such instrument to have consisted, in whole or in part, of the purchase money of a Patent Right, or of a partial interest, limited geographically or otherwise, in a Patent Right, is guilty of a misdemeanor, and liable to imprisonment or fine.

Altering a Note.

When a Note or Bill is materially altered without the assent of all parties liable, it is voided, except as against a party who has himself made, authorized or assented to the alteration, and subsequent indorsers.

Provided, that where a Bill has been materially altered, but the alteration is not apparent, and the Bill is in the hands of a holder in due course, such holder may avail himself of the Bill as if it had not been altered, and may enforce payment of it according to its original tenor.

The following alterations are material, namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and where a Bill or Note has been accepted or made payable generally, (that is, at no stated place) the addition of a place of payment without the acceptor's or maker's assent.

BOULTON v. LANGMUIR.—A case decided in November, 1897, by the Court of Appeal, holds that: "The changing by the payee of the date of a Demand Note, payable with interest, to a later date, is a material alteration and makes it void, though the effect of the alteration may be to benefit the maker by reducing the amount of interest chargeable against him," Judge Osler stating in the course of his judgment that: "To alter the date of the note was to make it appear to be a different contract from that which the defendant had entered into, both as regards the date at which it became an existing contract, and the time from which it bore interest. I do not see that the fact of its being thereby made in one respect more favorable to the defendant affects the question of the materiality of the alteration. It is the change in the contract, not the surrounding circumstances, which the law regards."

Legal Rate of Interest.

The rate of Interest that can be legally collected upon an overdue Note, or any overdue debt, on which the rate is not fixed by agreement, is six per cent. per annum. It is important, when drawing a note that is to bear a higher rate than six per cent., that the words "AS WELL AFTER AS BEFORE MATURITY UNTIL PAID" be inserted. If these words, or words to the same effect, are not inserted, the Note would bear Interest at the higher rate till maturity, but after that only at the legal rate. The words "UNTIL PAID" are not sufficient. Interest can be collected on an overdue Note from maturity, even though not expressly bearing interest.

There is no usury law in this country, nor is it desirable that there should be. Money, like any other commodity, will bring for its use to the owner usually just what it is worth, considering the risk run and the demand and the supply. If a lender is content with a fair rate of Interest he can readily find borrowers with good security to offer, and the grasping man can find customers, too, who will promise a high rate of Interest, but offer poor security for the fulfilment. The legal rate of 6% is regarded by the law as a penalty for default.

Compound Interest cannot be collected on a Note unless it is specially agreed and expressed. A note of \$1,000 bearing Interest say at 10% for a year would be worth \$1,100 at maturity, and, of course, that would be the amount to bear Interest.

AN EXTRAORDINARY CASE—EXORBITANT USURY.

AN INTEREST CHARGE OF FIVE PER CENT. PER DAY.

(From the Toronto Mail and Empire's Montreal Correspondence.)

Montreal, Que., March 10, 1897—(Special)—In November, 1894, the following extraordinary note was signed in this city:—

"Montreal, November 30, 1894. One month and a half from date, for value received, at the domicile of Ambroise Lafortune, 98½ Common street, I promise to pay to the order of said Ambroise Lafortune the sum of \$250; and, moreover, in default of payment at maturity, to pay an interest of five per cent. per day, to be reckoned after the date of the making of the present note on the amount thereof. J. L. Michaud."

The note was made on a regular printed blank used by Lafortune. The note was not paid at maturity, but a hundred dollars was given on account on July 7, 1896, and on February 26 last the holder of the note took an action claiming the balance of \$150, with interest thereon, as stipulated in the contract. Judge Gill rendered judgment in the case this morning. The written judgment points out that the interest as charged represents an annual interest of \$2,737.50 on the sum claimed, which since December 20, 1894, to February 26, 1897, date of inscription, has accumulated to \$5,985, to which must be added the \$150, the amount for which the action was taken, making in all \$6,135, for which judgment must go in favor of plaintiff. When rendering judgment, Judge Gill said that he felt it his duty, under the extraordinary circumstances, to make a few remarks. Of course, he was bound by the law, and had to render judgment in favor of the plaintiff, since such transactions are allowed in the land, and parties must abide by the terms of such a contract when they choose to sign it. It was time, however, that the attention of the Legislature should be called to such a state of things. Usury was left unmolested under pretence of inducing foreign capital to come here, but surely some limit should be placed on the rate of interest, and the authorities should interfere in some shape or form.

This case excited so much attention that the following Act of Parliament was passed to save fools from their folly:

60-61 VICTORIA.

CHAP. 8.

An Act respecting Interest.

[Assented to 29th June, 1897.]

HER Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows :—

1. This act may be cited as *The Interest Act*, 1897.
2. Whenever any interest is by the terms of any written or printed contract and whether under seal or not, made payable at a rate or percentage per day, week, month, or at any rate or percentage for any period less than a year, no interest exceeding the rate or percentage of six per cent. per annum shall be chargeable, payable or recoverable on any part of the principal money, unless the contract contains an express statement of the yearly rate or percentage of interest to which such other rate or percentage is equivalent.
3. If any sum is paid on account of any interest not chargeable, payable or recoverable under the last preceding section, such sum may be recovered back or deducted from any principal or interest payable under such contract.
4. This Act shall not apply to mortgages on real estate.

Days of Grace.

The custom among merchants has established the practice, which is recognized in law, of allowing three Days of Grace upon all Promissory Notes, Drafts, and Bills of Exchange not payable on demand. No time Bill is legally due until the days of grace have expired. In preparing to meet your own paper, or in presenting for payment that of your customers, bear this fact in mind, and be careful when entering the due dates in your Bill Book to add the three days of grace. To illustrate : A Note given at three months from October 26th would not fall due till January 29th. A Note given at ninety days from October 26th, will fall due January 27th.

On the first of January, 1895, the State of New York abolished Days of Grace upon Bills and Notes made within that State. Each State legislates for itself in this matter. In Canada the Dominion Parliament alone can do so, thus insuring uniformity throughout all the Provinces.

Power of Attorney.

It is customary for firms to grant to their managing accountants the power to draw Bills, sign Notes, accept Drafts, draw Cheques, and generally transact their financial business. This authority is conveyed and exercised under a document called a Power of Attorney made under seal. It may be special or general—special in confining the exercise of it to a limited number of acts ; general by the conveyance of the authority to act for the firm in carrying on its ordinary financial operations. The usual way for a person who is acting under a Power of Attorney to sign business papers is, to sign the firm name, and place his own signature underneath, with the words “per pro.” or letters “p. p.” before it, thus :

J. C. MORGAN & Co.,
per pro. J. W. Johnson.

The abbreviations stand for the phrase “by procuration.”

A signature by procuration operates as notice that the agent has but a limited authority to sign, and the principal is only bound by such signature if the agent in so signing was acting within the actual limits of his authority. It is advisable to have the Power of Attorney approved by the bank at which the principal does his business.

Where a person signs a Note or Bill as drawer, indorser or acceptor, and adds words to his signature, indicating that he signs for or on behalf of a principal, or in a representative character, he is not personally liable thereon; but the mere addition to his signature of words describing him as an agent, or as filling a representative character, does not exempt him from personal liability.

Where persons are under an obligation to sign or indorse Notes or accept Bills in a "representative capacity," they should be careful to do so in such terms as clearly to negative personal liability. See Section 31, sub-section 5, of the Bills of Exchange Act of 1890. In signing or indorsing such Notes or Bills, they should add, "As executors or trustees of estate," and also the words, "without recourse to us personally." Where they neglect to take such precautions, they will be held personally liable.

An Insurance Agent has no implied power to accept personally a Note for the premium, and if death or a loss occurs after default has been made in payment of a Note so given, the insurance money could not be collected on the policy.

When a Note Becomes Outlawed.

STATUTE OF LIMITATIONS.

In the Province of Ontario a Bill or Note becomes outlawed six years after the date of maturity, or after the date of the last payment on account, or after the last written acknowledgment. That is, the holder of such a Note cannot recover upon it if the maker, on being sued, successfully sets up in defence the Statute of Limitations, which was passed in the twenty-first year of the reign of King

James I., to limit the time allowed to parties to commence their suits, so as to shorten litigation. In all civilized countries some period is prescribed by statute with this view. An instrument approaching the legal, though not the moral, end of its existence may be brought back to infancy and have its life renewed, by the holder obtaining, say in answer to a letter, an acknowledgment in writing of the debt from the maker of the Note.

Each Province controls its own period for limiting the bringing of actions, but the general law regarding Bills and Notes is the same all over Canada.

Indorsements.

The act of writing the name upon the back of an instrument is called indorsing, which has two effects; it makes the indorser responsible for payment in the event of the maker failing to pay at maturity (provided that due and legal notice of non-payment be given to the indorser, as explained beginning at page 30), and it makes an instrument that is payable to order, transferable. The forms of indorsement commonly in use are (taking a note payable to the order of John Jones as an example) : —

Indorsement in Blank, Specifying no Indorsee, as JOHN JONES,

which has the effects just described. When a Note or Bill has been indorsed in blank, any holder may convert the blank indorsement into a special indorsement, by writing above the indorser's signature a direction to pay the Bill or Note to, or to the order of, himself or some other person.

Indorsement in full or Special Indorsement, Specifying the Indorsee to Whose Order it is to be Payable, as

**Pay to the order of William Black,
JOHN JONES,**

which makes the indorser responsible and the instrument negotiable only after it has been indorsed by the Indorsee, William Black.

Qualified Indorsement.

Without Recourse to me,
JOHN JONES,

which relieves the indorser of responsibility, and simply makes the instrument transferable.

Restrictive Indorsement,

Pay to Richard Brown only,
JOHN JONES,

which makes the indorser responsible, but confines the payment to the indorsee.

Other forms of qualifying indorsement are used, such as that placed on Cheques payable to order sent by a clerk to the bank to be deposited to the firm's credit:

For deposit only,
JOHN BEATTY & Co.

The qualifying words render it impossible for the person making the deposit to draw the money.

Indorsements are often made to serve as receipts, as, for example, I draw a Cheque payable to S. Jones, or order, instead of to S. Jones, or bearer, because, if drawn to order, Jones must sign his name on the back before he can receive payment. On paying and receiving back a Note payable to order that has not been transferred, and consequently not indorsed, you should have the payee indicate that he had held it, or you could prove nothing by it. Have him indorse it and immediately cancel the indorsation. Notes that have been retired should be cancelled and filed away like receipts.

The Order of Indorser's Liability.

The holder of a Note upon which there is an indorser or several indorsers has equal recourse against any of them (provided they have been duly notified of non-payment) and the maker at maturity. If

the holder should be obliged to sue, and should he recover from the maker, that would discharge all the indorsers ; should the holder recover from the first indorser, that indorser would have recourse against the maker, but not against subsequent indorsers ; should the holder recover from the second indorser, that indorser would have recourse against all that preceded him, namely, the first indorser and the maker. If you should have to become an indorser on a Note along with other indorsers, you will see the importance of placing your name last. All the parties to a Note are liable to the holder, but among themselves the order of the liability is, first the maker, then each indorser in his turn.

Guarantee.

You may guarantee the payment of a Note as follows: "I hereby guarantee the payment of the within Note," and sign your name. Your liability is beyond that of an indorser, and you would not be relieved for want of presentation, nor for want of notice of dishonor. It is not required that a consideration be expressed by the guarantor ; it is implied.

Where to Present a Note for Payment.

1. Where a Promissory Note is in the body of it made payable at a particular place, *it must be presented for payment at that place.* But the maker is not discharged by the omission to present the Note for payment on the day that it matures. If no place of payment is specified in the body of the Note, presentment for payment is not necessary in order to render the maker liable.

2. *Presentment for payment is necessary in order to render the indorser of a Note liable, unless he waives such presentation.*

3. Where a note is in the body of it made payable at a particular place, presentment *at that place* is necessary in order to render an indorser liable ; but when a place of payment is indicated by way of memorandum only, presentment at that place is sufficient to render

the indorser liable, but a presentment to the maker elsewhere, if sufficient in other respects, shall also suffice.

The Proceedings to be taken on the Non-payment of a Note Having an Indorser.

It is of the first importance to understand what is to be done in the event of a Note, having an indorser, being dishonored at maturity. *The maker's Liability is absolute, but the indorser's is conditional on his receiving notice of non-payment.* A Note that may be regarded as perfectly good before maturity, not because the maker is reliable, but because the indorser upon it is financially sound, may, after it has become due, be practically worthless, if the proper steps to hold the indorser have not been taken. Having presented it at the place named by the maker for its payment, and payment being refused, the holder is bound to notify the indorser immediately, in order to have recourse against him. This will be best accomplished by handing the instrument to a Notary Public to be protested. The notary will make a demand for the payment, and, being answered "No Funds," or "Not Sufficient Funds," will write out a protest, inserting in it the answer to his demand; and he will, not later than the following business day, mail a notice of protest to the known address of the indorser or indorsers, from the nearest post office to the place at which the Note was payable.

The protest will cost the holder, in the Province of Ontario, fifty cents, and each notice twenty-five cents and the postage, which charges he will be entitled to collect from any of the parties to the Note, as well as legal interest from the date of maturity. The production of the protest with the Note in court will be sufficient *prima facie* evidence upon which to sue an indorser.

In this Province notaries are appointed for life without special examinations, by the Ontario Government. They are usually attorneys, however. In the Province of Quebec, the notarial is a distinct profession, as it is in France.

When a dishonored Note or Bill is authorized or required to be protested, and the services of a notary cannot be obtained at or near the place where the Bill is dishonored, any justice of the peace resident in the place may present and protest such Note or Bill, and give all necessary notices, and shall have the necessary powers of a notary in respect thereto.

Waiving Protest.

By Waiving Protest an indorser renders it unnecessary for the holder to have an instrument protested. This is usually done, if before maturity, by the indorser writing the words on the back :

"Presentation and Protest Waived,"

JOHN JONES.

If at maturity :

"I hereby accept notice of non-payment and waive protest,"

JOHN JONES.

Protest may be waived by letter or telegram, should the indorser be absent from the place of payment at the date of maturity.

There is no necessity to protest a dishonored Note upon which there is no indorser; the maker can be held for six years after maturity.

Noting.

When a Bill or Note is required to be protested within a specified time, it is sufficient that it has been noted for protest before the expiration of the specified time; and the formal protest may be extended at any time thereafter as of the date of the noting.

Paying or Making Partial Payments upon Notes.

When you pay a Note or renew one, be sure that you get it back, and, if it has not been done already, cancel it, by writing "cancelled" or "paid" across the face, and run a pen through the maker's and indorser's names, and thus render it valueless. If the payee should still be the holder, he should, before returning it, indorse it, or place

some written evidence upon it that he had been in possession of it, otherwise you could prove nothing by it. Put cancelled Notes away in packages as you should receipts, for production at any time when necessary.

The importance of receiving back Notes that have been paid was made very apparent to me by a circumstance that came under my observation recently. A man borrowed a sum of money upon two Notes from a lender, and he, in turn, discounted them at a bank. At the date of maturity the maker duly appeared and tendered payment to the man from whom he borrowed, who accepted it and gave a receipt. His excuse for not producing and returning the Notes was that they were in the bank, and it was inconvenient to go for them, but he promised to send them at an early day. In less than a week he "skipped out" without returning the Notes, and of course the maker had to pay the amount to the bank, as well as the notarial charges incurred in protesting them. Retail dealers, who have to ask for renewals from wholesale houses, are often careless about receiving back their old Notes. It is not difficult to recall cases in which such paper has turned up in banks after the failure of a wholesale concern, and the easy-going dealer had to pay them.

When making partial payments upon Notes, see that the payment is properly acknowledged by indorsement on the back of the instrument.

Example ; Received, August 28th, 1898, the sum of fifty dollars, on the within note. Signature is neither necessary nor desirable.

Take a separate receipt as well.



THE BOOK-KEEPING IN CONNECTION WITH NOTES.

Any written obligation to pay money not under seal is termed in business by the holder, a Bill Receivable, and by the maker or acceptor, a Bill Payable. *In Book-keeping the accounts in the ledger with these are called, respectively, Bills Receivable account and Bills Payable account. Bills Receivable account is made Dr. when other people's Notes and acceptances are received, and Credited when they are disposed of. The difference, or balance, between the two sides should correspond with the Notes on hand, and the account closes, by balance, unless all the Notes have been disposed of, when, of course, it will be simply ruled and footed.

Bills Payable account is credited when you issue a Note or accept a Draft, and debited when you redeem or, as the word is, retire these obligations. The difference between the two sides should correspond with the obligations outstanding, and the account closes, to balance, unless all the Notes have been paid, when, like Bills Receivable account under like circumstances, it will be ruled and footed. As explained at page 36, interest must not be put in either Bills Receivable or Bills Payable accounts. The mere novice in book-keeping will understand and be able to deal with these accounts when, in the case of Bills Receivable, they are simply received and disposed of, and, in the case of Bills Payable, when they are simply issued and redeemed. But in the event of

*No business man should omit to keep a Bill Book in addition to the Ledger Accounts with Bills Receivable and Bills Payable.

Notes having to be Renewed,

more difficulty will be experienced. I shall take an example or two. A Note of \$300 received from F. Spencer was duly debited to Bills Receivable, and his account was credited. It stood at the debit of Bills Receivable until I disposed of it by discounting it at the Bank of Commerce, when I made the bank debtor for the proceeds, discount debtor for the difference between the proceeds and the face of the Note, and credited Bills Receivable account with the whole amount. My customer asks for a renewal of the Note and I consent.

The renewal is for three months, and the interest is to be added to the new Note, making it \$305.20. I pay the old Note by cheque, send it back to Spencer, and get the new one. Entries for the Cheque given to pay the Note :

Bills Receivable	\$300
To Bank.....	\$300

This entry places the Note where it was before it was discounted, and is the same that would be made by an indorser, under any circumstances, paying a Note for a maker, except when the maker was considered financially worthless, when it would be charged to Loss and Gain.

Entries for the Renewal.

Bills Receivable, Dr.....	\$305 20
To Bills Receivable.....	\$300 00
" Interest.....	5 20

The maker's entry for the same transaction would be :

Bills Payable, Dr.....	\$300 00
Interest "	5 20
To Bills Payable.....	\$305 20

Partial Renewals.

Brown renews for you half the amount of a Note for \$500.00 due to-day. You pay \$250 by Cheque, and give a new Note for half the amount of the old one and interest on renewal, \$3 50.

1. Your entry:

Bills Payable Dr.	\$500 00
Interest "	3 50
To Bank	\$250 00
" Bills Payable	253 50

2. His entry:

Bills Receivable Dr.	\$253 50
Cash "	250 00
To Bills Receivable	\$500 00
" Interest	3 50

3. Your entry:

Bills Payable Dr.	\$600 00
Interest "	3 00
To Bank	\$303 00
" Bills Payable	300 00

4. His entry:

Bills Receivable Dr.	\$300 00
Cash "	303 00
To Bills Receivable	\$600 00
" Interest	3 00

Where a Cash Book is kept, of course the cash would have to be put through it. In that case the entries for No. 1 would be as follows:—

<i>Dr.</i>	CASH.
To Bank, for Cheque	
No.—....	\$250 00

JOURNAL.

Bills Payable Dr.	\$250 00
Interest "	3 50
To Bills Payable	\$253 50

CASH.	<i>Cr.</i>
By Bills Payable.	For
part payment on No. 92,	
renewed as per Journal	
and Bill Book ..	\$250 00

Important Points in Connection with the Bills Receivable and Bills Payable Accounts.

You will find analyses of the above accounts at page 33. I wish to emphasize here, and draw the student's special attention to the point, that when you retire your Notes and Acceptances, you should never charge Bills Payable Account with more or less than the face of the instrument (the amount credited when issued); and that when a Note or Acceptance against some one else is disposed of, Bills Receivable account should never be credited with more or less than the face of the instrument (the amount debited when received).

Examples.

ENTRIES.	
You pay your Note face \$500 and interest \$5.00.	Bills Payable Dr. \$500 00 Interest " 5 00 To Cash.... \$505 00
You pay a Note, face \$600, before maturity, and get a discount of \$10 off.	Bills Payable Dr. 600 00 To Cash..... 590 00 " Discount... 10 00
You receive payment of a Note, face \$300 and interest \$4.00.	Cash Dr. 304 00 To Bills Receivable... 300 00 " Interest..... 4 00
You receive less than the face of a Note when disposing of it or discounting it; face \$700, discount \$10.00.	Cash Dr. 690 00 Discount " 10 00 To Bills Receivable.. 700 00

If you carefully observe these instructions, you will find that the difference between the sides of Bills Payable account will always agree with the Notes outstanding; and the difference between the sides of Bills Receivable account will always agree with the Notes on hand. When issuing a Note (or acceptance) bearing interest, the entry is just the same as if it were not bearing interest, because the interest is a liability of the future, not yet matured.

The Authorized Method of Working Discount.

(From *The Educational Journal*, Toronto, January 1st, 1897.)

J. W. Johnson, F. C. A., one of the Principals of Ontario Business College, Belleville and joint author of "The Canadian Accountant," has, at our request, contributed a valuable article on discounting commercial paper. We call special attention to it as a reliable

statement of Canadian usage as contrasted with the usage of the United States, which we quoted on p. 188 of the December number. On behalf of our readers we return sincere thanks to Principal Johnson.

The question of discount has been, and still is, a source of trouble and uncertainty in examinations. I wish to point out to teachers and pupils an absolutely safe guide in working questions in that subject.

Discount is not an abstract question, nor a theory; it is a matter of common, everyday practice with bankers and business men. We have simply to ascertain their custom and we have the authorized method. The common law in regard to *any* business matter is the custom among merchants and bankers, which is known as the "Law Merchant" (*Lex Mercatoria*). Long before there was any statute law respecting Promissory Notes and Bills of Exchange, there was the common law, based upon the "Law Merchant." The practice of the banks in working questions in discount may be regarded as the common law with respect to that matter.

That practice is illustrated in the following examples. I am discounting a Note of \$560 (borrowing money, with the Note as security) at a bank at the rate 7% per annum. The Note is made at three months from January 5th, and I discount it on that date. As there are three Days of Grace on all Promissory Notes and Bills of Exchange, not payable on demand, throughout Canada, this Note will fall due legally on April 8th. The number of days between January 5th and April 8th is 93. The discount on the Note, that is to say, the amount that will be deducted from its face for the loan of the money at the time I borrow it, is the simple interest on \$560 for 93 days at the rate of 7% per annum. The interest on \$560 for a year at 7% is \$39.20; the interest for 93 days is $\frac{93}{365}$ of \$39.20 = \$9.98.

Again, I am discounting a Note of \$620, made at three months, from June 15th, on the 5th of July at the rate of $6\frac{1}{2}\%$ per annum.

The Note will mature on September 18th; the time that it has yet to run (from July 5th to Sept 18th) is 75 days. The interest on \$620 for a year at $6\frac{1}{2}\%$ is \$40.30; the interest for 75 days is $\frac{75}{365}$ of \$40.30 = \$8.28.

It will be observed that in discounting the first thing to do is, to ascertain how many days the instrument has to run *from the date of discounting* to the date of maturity. Then find the interest on the face of the Note for a year, and then for the fraction of a year, the denominator *always* being 365.

The trouble with candidates for examination has perhaps arisen from not clearly understanding the custom of our banks. They are apt to find the time in months and parts of a month, and calculate the discount for so many twelfths of a year, whereas the banks invariably find the exact number of days from the date of discounting to the maturity of the Note, and always allow 365 days to the year.

The journal entry for example 1, leaving the proceeds to credit in bank, if a customer's Note, is,

Bank	Dr. . . .	\$550 02
Discount	"	9 98
	To Bills Rec.	\$560 00

If it was your own Note, the account to be credited would be Bills Payable.

Instead of journalizing you might put the entries through the Cash Book as follows:—

Dr.	CASH.	CASH.	Cr.
	To Bills Rec. Dis. B. R. No. 690 \$560 00	By Bank, Proceeds of B. R. No. 690 Dis. \$550 02 " Discount, on above.. 9 98	

If it was your own Note, the account to be credited would be Bills Payable.

Discounting Notes Bearing Interest.

(From *The Educational Journal*, Toronto, February 1st, 1897.)

J. W. Johnson, F. C. A., one of the Principals of Ontario Business College, Joint Author of "The Canadian Accountant," and present Mayor of the City of Belleville, very kindly supplies a further valuable contribution on "Discounting," which will be duly appreciated by hundreds of our readers. All the educationists of Canada are glad to see Mr. Johnson seated in the Mayor's chair of Belleville the Beautiful, and they take his elevation to the municipal dignity as a compliment to a faithful and successful teacher, and as showing an intelligent appreciation of the national value of his work.

The subject of discounting was illustrated in my article in *The Journal* of January 1st by two Notes not bearing interest. At the editor's request, I now deal with the discounting of Notes bearing interest, by two examples—one, a Note payable at the place at which the discount was obtained, the other having to be sent away for collection at a cost for exchange (bank commission) of $\frac{1}{4}$ of 1%:

1. I hold a Note for \$760 against Robert Jones, drawn at ninety days from January 5th, 1897, bearing interest at the rate of 8% per annum, and discount it on the 18th of January at 7%. The first step is to ascertain how much the note will be worth at maturity, that is to say, what sum the holder will be entitled to receive from the maker when it falls due, because that is the amount to be discounted. The interest for a year on \$760 at 8% is \$60.80; the interest for ninety-three days (the term of the Note) is $\frac{93}{365}$ of \$60.80 = \$15.49; \$760 (face of Note) + \$15.49 (interest on Note) = \$775.49, worth of Note at maturity. The next step is to ascertain the number of days the Note has to run from the date of discounting to the date of maturity. It will be due on April 8th, and was discounted on January 18th. The number of days between January 18th and April 8th is eighty. Now find the discount on \$775.49 for eighty days, *i. e.*, the amount that will be deducted from \$775.49 for

the loan of the money at the time I borrow it, which is the simple interest (bank discount and simple interest being the same) on \$775.49 for eighty days at the rate of $7\frac{1}{2}\%$ per annum. The interest on \$775.49 for a year at $7\frac{1}{2}\%$ is \$54.28; the interest for eighty days is $\frac{80}{365}$ of \$54.28 = \$11.90. The net proceeds of the Note to me is \$763.59.

2. I hold a Note against Richard Rowe drawn at three months from June 5th, 1897, for \$560, bearing interest at the rate of $7\frac{1}{2}\%$ per annum, and discount it on July 2nd at the rate of 6% . As it is payable in another town, the bank charges me, in addition to the discount, $\frac{1}{4}$ of 1% for collection. The interest for a year on \$560 at $7\frac{1}{2}\%$ is \$39.20; the interest for ninety-five days (the term of the Note) is $\frac{95}{365}$ of \$39.20 = \$10.20; \$560 (face of Note) + \$10.20 (interest on Note) = \$570.20, worth of Note at maturity. It will be due on September 8th, and was discounted on July 2nd. The number of days between July 2nd and September 8th is sixty-eight. The interest on \$570.20 for a year at 6% is \$34.21; the interest for sixty-eight days is $\frac{68}{365}$ of \$34.21 = \$6.37, and $\frac{1}{4}$ of 1% for collecting \$570.20 = \$1.43; \$1.43 + \$6.37 = \$7.80, the total cost of discounting and collecting. The net proceeds of the Note to me is \$562.40.

It will be observed in the first example that the Note is drawn at ninety days, and has, therefore, ninety-three days to run, including Days of Grace; and in the second example, that the Note is drawn at three months, which makes it necessary to count the actual number of days between the date of the Note, June 5th, and the time of maturity, September 8th, which is ninety-five.

The journal entry for example 1, leaving proceeds to credit in bank, is

Bank	Dr.	...	\$763 59
Discount	"		11 90
	To Bills Receivable		\$760 00
	" Interest		15 49
	or		
Bank	Dr.		\$763 59
	To Bills Receivable		\$760 00
	" Interest	..	3 59

If the entries are made in the Cash Book instead of the Journal they would be as follows:—

Dr.	CASH.		CASH.	Cr.
To Bills Rec., Dis. B. R., No. 320....	\$760 00		By Bank, Proceeds B. R. No. 320 dis.	\$763 59
To Interest, on above to maturity.	15 49		" Discount, on above....	11 90

You may omit the entry for discount, \$11.90, on the credit side, and reduce the entry for interest on the debit side to \$3.59.

The Journal entry for example 2 is,

Bank Dr.	\$562 40
Discount and Exchange	7 80
To Bills Receivable....	\$560 00
To Interest.....	10 20
or	
Bank Dr.	\$562 40
To Bills Receivable....	\$560 00
To Interest	2 40

The entries in the Cash Book would be similar to those for example 1.

Days of Grace on Notes and Drafts.

BY J. W. JOHNSON, F. C. A., PRINCIPAL ONTARIO BUSINESS
COLLEGE, BELLEVILLE, ONT.

(From the Canadian Teacher, April 1st 1897.)

Since my article on discount appeared in your issue of January 1st, I have been surprised to find how far astray is the prevailing opinion among teachers regarding Days of Grace on Notes and Bills. Fortunately for Canada, the British North America Act, in

distributing legislative powers, assigned to the Dominion Parliament the subject of Bills of Exchange and Promissory Notes, and hence we have uniformity with respect to them throughout the whole Dominion. The Act now in force is known as the "Bills of Exchange Act, 1890."

Let it be known by teachers, and by them definitely taught to their pupils, that on all Promissory Notes and Drafts, except those payable on demand, there are three Days of Grace in Canada, and hence such instruments are not legally due until the Days of Grace have expired. I quote from Section 14 of the Act :

"Where a Bill or Note is not payable on demand, the day on which it falls due is determined as follows :

"(a) Three days, called Days of Grace, are, in every case where the Bill or Note itself does not otherwise provide, added to the time of payment as fixed by the Bill or Note, and the Bill or Note is due and payable on the last Day of Grace : Provided that—

"(1) Whenever the last Day of Grace falls on a legal holiday or a non-juridical day in the province where any such Bill is payable, then the day next following, not being a legal holiday or non-juridical day in such province, shall be the last Day of Grace."

Teaching at variance with the law is dangerous. For example : A holds a Note against B on which C is indorser, made at six months from January 5th, 1897. A, being in ignorance respecting Days of Grace, presents the Note at the place of payment on July 5th and is told there are no funds to meet it. He gets the Note protested and notice of dishonor sent to the endorser on that day, and supposes he has taken the proper steps to have recourse against him. What he did on the 5th of July is futile, as the Note was not legally due till the 8th, and if somebody does not tell him of his error in time to enable him to present the Note for payment on the 8th, and, in

case of dishonor, to have it protested and notice of dishonor sent to the indorser not later than the following business day, he will be without remedy against him.

I have found the idea prevailing that a Note discounted at a bank would have three Days of Grace, while a Note held by an individual or firm would have no Days of Grace. I have even heard the first called a "Bank Note," indicating that the speaker regarded it as something different from a note held by an individual or firm. There is no such distinction, nor is the term "Bank Note" applicable to a note under discount at a bank. Bank Notes are the bills issued by the banks, by authority of Parliament, to the limit of their paid-up capital, which serve the people as money or a medium of exchange.

I may add that in the United States each State legislates for itself on the matter of Bills and Notes, and the lack of uniformity in consequence is seriously felt by business men. The State of New York abolished Days of Grace on the 1st of January, 1895.

***Lien Notes.**

Lien Notes are now frequently given by people purchasing agricultural implements, pianos, organs, sewing machines, etc.

Read over the following form carefully. You will observe that the article upon which the Lien (claim) Note has been given remains the property of the seller, until the whole of the purchase money has been paid. Consequently, when buying a second-hand instrument, such as those mentioned above, one should inquire carefully whether there is a Lien Note upon it.

*Attention is drawn to the fact that Lien Notes are dealt with under Provincial Legislation, as they refer to chattels.

A Common Form of Lien Note.

KIND OF MACHINE.

Number of Machine.
Agent.

\$..... BELLEVILLE,.....189..

On the first day of.....189 , I promise to pay THE G. & J. BROWN MAN'FG. CO., (Limited), or order, at their Office in Belleville, for value received..... Dollars, with interest at Seven per cent. per annum, and at the rate of Ten per cent. per annum after date of maturity. I further agree to furnish security satisfactory to you at any time if required. If I fail to furnish such security when demanded, or should I sell or otherwise dispose of the land or personal property I am now possessed of, then this Note is to become due and payable forthwith; and you may retake possession of the article for which this Note is given without process of law, and sell it by public or private sale, but the taking and selling of said article shall not relieve me of my liability for any balance of the purchase price still unpaid after such sale. The title and right to the possession of the property for which this Note is given, named in margin, shall remain vested in THE G. & J. BROWN MAN'FG. CO. (Limited), until this Note or any obligation given therefor is paid.

I hereby acknowledge having this day received a copy of this Note.

Lot..... Con Township.....

P. O. Address.....

Witness

Revised Statutes of Ontario, 1897, chapter 149, provides that such an instrument as the above is valid as against subsequent purchasers of the article for which it was given, if at the time possession was given to the bailee, it had the name and address of the manufacturer, bailor or vendor of same painted, printed, stamped or engraved thereon, or otherwise plainly attached thereto.

Any proposed purchaser of the article can demand and is entitled to receive within five days from the manufacturer, bailor or vendor, claiming ownership, full information respecting the amount due and the terms of payment; and if he refuse to give such information, he will be liable to a fine of \$50. The inquiry may be made by letter, giving the name and address to which a reply may be sent, and it will be sufficient if the reply giving the information be made by registered letter within five days.

If possession be taken of the article for breach of condition it may be redeemed within twenty days, by full payment of the amount due and the cost of taking possession. If the goods taken were sold or bailed originally for a greater sum than \$30.00, they shall not be sold, when seized for breach of condition, without five days notice to the bailee or his successor in interest, by personal service of notice, or leaving it at his residence or last known place of abode in Ontario, or sent by registered letter seven days before the time when the said five days will elapse, addressed to the last known post-office address in Canada of the bailee or his successor in interest.

A copy of the receipt note must be left with the bailee at the time of the execution of the instrument, or within twenty days thereafter.

The manufacturer, bailor or vendor, may file a copy of the instrument with the Clerk of the County Court of the county in which the bailee resided at the time of the conditional purchase within ten days from its execution, and thereby relieve himself from some of the provisions of the Act.—*See Revised Statutes of Ontario 1897, Chap. 149.*

A Lien Note is not an Ordinary Promissory Note.

According to a recent decision given in *Ontario*, a Lien Note is not an ordinary Promissory Note, and consequently it is non-negotiable. The lien condition takes it out of that category. It can be transferred by assignment, like an ordinary contract, and would be subject to any off-sets and legal defences that existed between the original parties.

I. O. U.

Is a memorandum of a debt given by a borrower to a lender, as for example :—

Montreal, April 28th, 1898.

Mr. A. B., I. O. U. Ten Dollars.

C. D.

It is not a Promissory Note, but is valuable evidence of the existence of the debt.

DRAFTS, OR INLAND BILLS OF EXCHANGE.

Definition.

A Bill of Exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person, or to bearer. It is usually drawn to order, and is therefore negotiable by indorsement.

An Inland Bill is a Bill which is, or on the face of it purports to be, (a) both drawn and payable within Canada, or (b) drawn within Canada upon some person resident therein. Any other Bill is a foreign Bill.

Nearly all that has been said of Notes is applicable to drafts ; they differ, however, in form and in other respects. A note is a *promise* to pay, originating with the debtor ; a draft is an *order* to pay originating with the creditor, and addressed by him to the debtor. There are three parties to a draft—the *drawer*, the one that draws it ; the *payee*, the one in whose favor it is drawn ; the *drawee*, the one on whom it is drawn, who becomes the acceptor. The acceptor of a draft stands in the same position as the maker of a note, and the drawer of a draft stands in the same position as the first indorser of a note. To hold the Drawer for a dishonored bill, notice of dishonor must be sent to the drawer not later than the next following business day. This will be best accomplished by handing it to a Notary Public to be protested. Any drawer or indorser to whom such notice is not given is discharged.

The Theory of Exchange.

In commerce, an "Exchange" means to pay your creditor by transferring to him a debt owing to you by some one else.

The following example will illustrate both the theory and practice of exchange. You will observe that three parties and two debts are necessary to an exchange :

Robinson & Johnson, Belleville, are indebted to John Lovell & Son, Montreal, who desire that they shall pay at ten days' sight the amount to R. Miller, Son & Co, to whom John Lovell & Son are indebted, and to effect this they draw the following :—

Draft.

\$500.00

MONTREAL, January 8th, 1898.

Ten days after sight, pay to the order of * R. Miller, Son & Co., the sum of Five Hundred Dollars, for value received, and charge the same to the account of

† JOHN LOVELL & SON.

To ‡ Robinson & Johnson,
Belleville.

* Payee † Drawer ‡ Drawee.

To make the Draft binding upon Robinson & Johnson they will have to accept it, which they will do by writing across the face :

*Accepted January 10th, 1898, payable at the
Canadian Bank of Commerce, Belleville.*

Robinson & Johnson.

After which it is called an acceptance. Robinson & Johnson are now in the same position as if they had made a Promissory Note, and John Lovell & Son are in the same position as the first indorser on a Note. It is customary to allow the drawee to choose the place of payment ; in this case Robinson & Johnson name the Bank of Commerce, Belleville. If the Draft were drawn at ten days' date instead of ten days' sight, there would be no necessity to place the

date of acceptance upon it. In the former case the maturity would be reckoned from the day the Draft was drawn, in the latter it is reckoned from sight.

The drawer of a Draft may be both drawer and payee. If John Lovell & Son desired to collect for themselves the amount of Robinson & Johnson's debt, they would draw the Draft to their own order.

The entries of the parties to the foregoing Draft would be as follows :—

John Lovell & Son's	{	R. Miller, Son & Co., Dr.
would be	}	To Robinson & Johnson.
R. Miller, Son & Co.'s	{	Bills Receivable, Dr.
would be	}	To John Lovell & Son.
Robinson & Johnson's	{	John Lovell & Son, Dr.
would be	}	To Bills Payable.

Further Illustration of "Exchange."

Here is a further illustration of "Exchange," given by McLeod, one that any person will readily understand :

You are travelling in an omnibus. The fare is twenty-five cents. The smallest change you have is fifty cents, which you hand to the conductor. Another passenger is desirous of paying his fare, and has twenty-five cents in his hand ready to hand over. The conductor tells him to pay it to you, which he does. By this means the conductor's debt to you is paid by the transfer to you of the other passenger's debt to him, and thus considerable trouble is saved.

The principle of Exchange here is precisely the same as that involved in the Draft, for, as you will see, if you study the matter, John Lovell & Son are in the same position as the conductor of the omnibus, and pay their debt to R. Miller, Son & Co. by transferring to that firm the debt owing to them by Robinson & Johnson, just as the conductor paid his debt to you by causing the other passenger to pay you the sum he owed the conductor.

The Acceptor's Liability.

The acceptor of a Bill, by accepting it—

Engages that he will pay it according to the tenor of his acceptance.

The Drawer's Liability.

The Drawer of a Bill, by drawing it—

Engages that on due presentment it shall be accepted and paid according to its tenor, and that if it is dishonored he will compensate the holder or any indorser who is compelled to pay it, provided that the requisite proceedings on dishonor are duly taken.

The Indorser's Liability.

The Indorser of a Bill, by indorsing it—

Engages that on due presentment it shall be accepted and paid according to its tenor, and that if it is dishonored he will compensate the holder or a subsequent indorser who is compelled to pay it, provided that the requisite proceedings on dishonor are duly taken.

Where a Bill is Dishonored, Who May Recover and What.

In case of Dishonor the holder may recover from any party liable on the Bill, and the drawer who has been compelled to pay the Bill may recover from the acceptor, and an indorser who has been compelled to pay the Bill may recover from the acceptor or from the drawer, or from a prior indorser—

- (1) The amount of the Bill;
- (2) Interest thereon from the time of presentment for payment if the Bill is payable on demand, and from the maturity of the Bill in any other case;
- (3) The expenses of noting and Protest.

Drafts sent for acceptance or collection through a bank will be protested if dishonored, unless instructions to the contrary have been given, or a slip be pinned to the Draft with the words printed or written upon it : " Not to be protested ; take this off before presenting." You may often succeed in collecting from a slow customer by the medium of a Draft, when dunning letters would fail to produce a response. When drawing on a doubtful customer, be sure to attach the " No Protest," for the reason that if your Draft should be returned dishonored and protested, you will have to pay the notarial charges yourself.

Definition and Requisites of Acceptance.

The Acceptance of a Bill is the signification by the drawee of his assent to the order of the drawer :

An acceptance is invalid unless it complies with the following conditions, namely :—

(a) It must be written on a Bill and be signed by the drawee. The mere signature of the drawee without additional words is sufficient ; but it is customary to write the word *accepted* above the signature ;

(b) It must not express that the drawee will perform his promise by any other means than the payment of money.

Where in a Bill the drawee is wrongly designated or his name is mis-spelt, he may accept the Bill as therein described, adding, if he thinks fit, his proper signature, or he may accept by his proper signature.

When a Bill is duly presented for acceptance, *and is not accepted on the day of presentment or within two days thereafter, the person presenting it must treat it as dishonored by non-acceptance. If he does not, the holder shall lose his right of recourse against the drawer and indorsers.*

When a Bill is dishonored by non-acceptance, an immediate right of recourse against the drawer and indorsers accrues to the holder, and no presentment for payment is necessary.

A Bill must be Duly Presented for Payment.

1. If it is not so presented, the drawer and indorsers shall be discharged.

2. A Bill is duly presented for payment which is presented in accordance with the following rules :—

(a) Where the Bill is not payable on demand, presentment must be made on the day it falls due ;

(b) Where the Bill is payable on demand, then presentment must be made within a reasonable time after its issue, in order to render the drawer liable, and within a reasonable time after its indorsement, in order to render the indorser liable ;

(c) Presentment must be made by the holder or by some person authorized to receive payment on his behalf, at the proper place, as hereinafter defined, either to the person designated by the Bill as payer, or to his representative or some person authorized to pay or refuse payment on his behalf, if, with the exercise of reasonable diligence, such person can there be found ;

(d) A Bill is presented at the proper place :

(1) Where a place of payment is specified in the Bill and the Bill is there presented ;

(2) Where no place of payment is specified, but the address of the drawee or acceptor is given in the Bill, and the Bill is there presented ;

(3) Where no place of payment is specified and no address given, and the Bill is presented at the drawee's or acceptor's place of business, if known, and if not, at his ordinary residence, if known ;

(4) In any other case, if presented to the drawee or acceptor wherever he can be found, or if presented at his last known place of business or residence.

Where a Bill is presented at the proper place, and after the exercise of reasonable diligence, no person authorized to pay or refuse payment can be found there, no further presentment to the drawee or acceptor is required.

Where the place of payment specified in the Bill or Acceptance is any city, town or village, and no place therein is specified, and the Bill is presented at the drawee's or acceptor's known place of business or known ordinary residence therein, and if there is no such place of business or residence, the Bill is presented at the post office, or principal post office in such city, town or village, such presentment is sufficient.

Acceptance and Payment for Honor.

NON-ACCEPTANCE.

Where a Bill of Exchange has been protested for dishonor by non-acceptance, or protested for better security, and is not overdue, any person, not being a party already liable thereon, may, with the consent of the holder, intervene and accept the Bill *supra* (above) protest, for the honor of any party liable thereon, or for the honor of the person for whose account the Bill is drawn.

A Bill may be accepted for honor for part only of the sum for which it is drawn.

An acceptance for honor *supra* protest, in order to be valid, must be written on the Bill, and indicate that it is an acceptance for honor, and be signed by the acceptor for honor. Where an acceptance for honor does not expressly state for whose honor it is made, it is deemed to be an acceptance for the honor of the drawer. Where a Bill payable after sight is accepted for honor, its maturity is calculated from the date of protesting for non-acceptance, and not from the date of the acceptance for honor.

The acceptor for honor is liable to the holder and to all parties to the Bill subsequent to the party for whose honor he accepted. but he must be duly notified of the drawee's non-payment.

NON-PAYMENT.

Where a Bill has been protested for non-payment, any person may intervene and pay it *supra* protest for the honor of any party liable thereon, or for the honor of the person for whose account the Bill is drawn. Where two or more persons offer to pay a Bill for the honor of different parties, the person whose payment will discharge most parties to the Bill shall have the preference. Payment for honor *supra* protest must be attested by a notary on a declaration by the payer or his agent.

Where a Bill has been paid for honor, all parties subsequent to the party for whose honor it is paid are discharged, but the payer for honor is subrogated for and succeeds to both the rights and duties of the holder as regards the party for whose honor he pays, and all parties liable to that party.

Where the holder of a Bill refuses to receive payment *supra* protest, he shall lose his right of recourse against any party who would have been discharged by such payment.

Bank Commission for Collecting.

The banks usually charge $\frac{1}{4}$ of 1% for making collections. If you wish to draw for a debt, say of \$200, in this province, and the drawee is to pay the exchange, the amount of your Draft would be \$200.50. If the drawee resides in a distant part of the Dominion, or in the United States, and you cannot tell what the cost of collection will be, as the Draft will have to pass through several banks before presentation, and each be paid a commission, add the words after the amount in the body of the Draft, "WITH EXCHANGE."

Kinds of Drafts.

There are three kinds of Drafts, namely, Time, Sight and Demand. Time Drafts are those that are intended to run a certain time after date or after acceptance. The only difference between a

Draft at Sight and a Draft on Demand is, that on the former the drawee can take three days of grace, and the latter is payable on presentation. When you desire to give the drawee a definite number of days for the payment of a Draft after he accepts it, draw so many days after sight. If you draw so many days after date the time is fixed for the payment, irrespective of the date of acceptance. For example, to give the drawee ten actual days from sight, draw at seven days' sight; to give him four days, draw at one day's sight, and so on. The days named and the three days of grace make the time the Draft will mature after sight.

*Accommodation Draft ("Kite Flying").

It is not an unusual thing when an extensive wholesale house fails, to hear of numerous failures among retail dealers in the same line. It will be found that disaster has come upon the latter because they have lent their names to the former too freely. To illustrate: I am doing a retail business in Belleville with a fair amount of capital, my largest creditor being John Blank & Co., of Toronto. They have placed me under obligation by renewing my paper occasionally, and otherwise indulging me. Better for me that they had not. They write and ask me to accept their Draft at three months for \$500 beyond the amount that I owe them, giving the excuse that they have to buy a large amount of exchange to remit to England in the coming week, or they have heavy duties to pay, and they remind me of the help they have given me in the past. Being of a grateful turn, and believing that the house of Blank & Co. could not be otherwise than sound, I consent, and duly accept the Draft, hoping that I shall not be called upon again to accommodate them with my name. At the end of the three months they duly retire my Acceptance and return it to me, as I knew they would. I am surprised, however, in a few days by a request to accept two more Drafts of \$500 each, for their accommodation. Similar excuses are given, and

*See "Accommodation Note," page 17.

I assume an obligation of \$1000, for which I receive no value. As time goes on similar requests continue, and so does my folly, until my name is upon their paper for a sum larger than my capital. They fail with this paper under discount at the bank, and as it would be impossible for me to pay it and discharge my legitimate obligations, I too have to make an assignment. An accommodation party is liable on the Bill to a holder for value ; and it is immaterial whether, when such holder took the Bill, he knew such party to be an accommodation party or not. Need I add the caution--never accept Accommodation Drafts, or, as the expression is, "fly kites" for any one. The man who accepts an Accommodation Draft is in a worse position than the man who indorses an Accommodation Note. The latter can come on the maker ; but the other, being the primary debtor, will only have an equitable right over against the estate of the man whom he accommodated.

Obtaining Assistance by Draft to Retire an Acceptance or Note.

A business man is frequently in such a position as the following :

His Acceptance (or Note) for \$600.00 in favor of John Allen & Co., of Montreal, will fall due four days hence at the Bank of Montreal in Kingston. All he can raise towards paying it is \$300.00 ; so he writes them the following letter :

KINGSTON, June 9, 1898.

MESSRS. JOHN ALLEN & Co.,

MONTREAL

GENTLEMEN,—I regret that I shall be unable to pay in full my Acceptance in your favor due on the 13th instant. All I can raise is \$300, and I request that you will kindly permit me to draw on you at sight for the balance, \$300, for which you may draw back upon me at ten days, with interest and exchange.

Yours faithfully,

RICHARD ROE.

He receives the following reply :—

MONTREAL, June 10, 1898.

MR. RICHARD ROE,
KINGSTON,

DEAR SIR,—Your letter of the 9th inst. is received, and in reply we hereby authorize you to draw on us at sight for \$300, to assist you to retire your Acceptance in our favor, due June 13th. As requested, we shall draw back upon you for that amount, adding interest and exchange.

Yours faithfully,

JOHN ALLEN & CO.

The letter of authority to draw the Draft will be shown by Roe to the manager of the Bank, with the request that the Bank will discount the Draft. He consents. Roe draws the following Draft :

\$300.00.

KINGSTON, June 13, 1898.

At sight, for value received, pay to the order of the Bank of Montreal the sum of three hundred dollars, and charge to the account of

RICHARD ROE.

TO MESSRS. JOHN ALLEN & Co.,
MONTREAL.

(N. B.—Roe might draw the Draft to his own order and indorse it over to the bank.)

Roe has the Draft discounted and leaves the proceeds, \$299.25 to his credit in the bank.

John Allen & Co. retire the Draft by Cheque on presentation.

The interest and cost of collecting the Draft which they draw back upon Roe is \$1.50 ; so they draw upon him at ten days' date for \$301.50.

Entries.

Roe's entry when he draws the Draft on Allen.	}	Bank, Dr..\$299 25	
		Discount, " .. 75	
		To John Allen & Co.	\$300 00
Allen's entry when they retire Roe's Draft by Cheque.	}	R. Roe, Dr..\$300 00	
		To Bank...	\$300 00
Allen's entry when they charge Roe with the interest and exchange on the Draft to be drawn at 10 days.	}	R. Roe, Dr.. \$1 50	
		To Interest	\$1 50
Allen's entry when they draw on Roe at 10 days.	}	Bills Rec Dr..\$301 50	
		To R. Roe..	\$301 50
Roe's entry when he accepts Allen's Draft at ten days' date.	}	John Allen & Co., Dr..\$300 00	
		Interest, " 1 50	
		To Bills Payable..	\$301 50

The Note to retire which assistance was obtained, was duly charged to Roe's account in the Bank, and he made

Bills Payable, Dr..\$600 00
To Bank \$600 00

and when he retires the Acceptance of \$301.50 he will make

Bills Payable..... \$301 50
To Bank \$301 50.

A Bank Draft

is a medium by which a remittance is made. You desire to send or carry money to a distance in a way that will be safe. Buy from a Bank a Draft payable on demand, at the place desired, to your order, or to that of the person for whom the money is intended. It will cost you a quarter of one per cent. more than the face, and will be cashed at par at the branch or Bank it is drawn upon.

If the Draft is drawn upon a foreign country, it is called a Foreign Bill of Exchange.

Buying a Bank Draft and Making Entries for It.

When buying a Draft from a Bank, you make out a "requisition" on the form the Bank supplies, stating the amount, and where and to whose order you desire it to be made payable, and sign it. Hand the requisition to the teller with a Cheque or cash for the amount of the Draft and the exchange, which is usually $\frac{1}{4}$ of 1%.

Entries, Example 1.

You owe The Ames, Holden Co., of Montreal, \$200.00 and remit to them a Draft bought from the Bank of Commerce, Belleville, for that amount, the exchange costing 50 cents ($\frac{1}{4}$ of 1%). You give a Cheque for \$200.50 in payment for the Draft and exchange. Your journal entry is :

The Ames, Holden Co., Dr. . . .	\$200	00		
Exchange (or Interest) "		50		
To Bank			\$200	50

Put through the Cash Book the entries would be :

Dr.	CASH.	CONTRA.	Cr.
	Bank for Cheque No.—..... \$200 50	By The Ames, Holden Co. remitted Bank Draft in Settlement. \$200 00	
		" Exchange on above Draft.....	50

Example No. 2.

We will suppose that you deduct a cash discount of 5% from the amount of the account owing The Ames, Holden Co. and remit a

Bank Draft in settlement for \$190.00, for which you pay \$190 + .47
 exchange = \$190.47 by Cheque. Your journal entry is :

The Ames, Holden Co., Dr...	\$200	00		
To Discount.....			\$ 9	53
" Bank.....			190	47

—OR—

The Ames, Holden Co., Dr...	\$200	00		
Exchange, " "		47		
To Discount			\$ 10	00
" Bank.....			190	47

Put through the Cash Book the entries would be either

Dr.	CASH.		CONTRA.	Cr.
	To Bank, for Cheque No.	\$190 47	By The Ames, Holden Co., remitted Bank Draft in settlement.	\$200 00
	To Discount, 5% off The Ames, Holden Co's a/c. less $\frac{1}{2}$ % cost of Draft.	9 53		

—OR—

Dr.	CASH.		CONTRA.	Cr.
	To Bank, for Cheque No.	\$190 47	By the Ames, Holden Co., remitted Bank Draft in settlement.	\$200 00
	To Discount, 5% off The Ames, Holden Co.'s a/c ...	10 00	By Exchange, on above Draft.....	47

FOREIGN BILLS OF EXCHANGE.

Bills of Exchange were not known to the ancients. We have records, however, of their use in the fourteenth century. It is probable that a Bill of Exchange was in its origin nothing more than a letter of credit from a merchant in one country to his debtor, a merchant in another, requesting him to pay the debt to a third person who carried the letter, and was travelling to the place where the debtor resided.

This mode of making payments was found by experience extremely convenient for all parties—to the creditor, for he could thus collect his debt without trouble, risk or expense; to the debtor, for the facility of payment was an equal accommodation to him; to the bearer of the letter, who found himself in funds in a foreign country, without the danger and incumbrance of carrying specie.

At first, perhaps, the letter alluded to many other things besides the order to pay money; but it was gradually disencumbered of all other matters, was left open, and the paper on which it was written gradually assumed the size and form now in use. The assignee was, perhaps, desirous to know beforehand whether the party to whom it was addressed would pay it, and sometimes showed it to him for that purpose; his consent to pay was the origin of Acceptance.

Foreign Exchange Explained.

The definition, theory and nature of inland Exchange have been fully set forth at pages 46, 47 and 48, and I shall now explain Foreign Exchange by the following practical illustrations: I am a produce commission merchant in Montreal, and have received from the firm

of John Lord & Co., London, England, an order for a quantity of wheat. I have shipped it on board the steamship "Parisian," and have obtained from the vessel's agent (or the master or purser) the Bill of Lading duly signed (in which I have had the wheat consigned to my own order, as it is not yet paid for) and I have also insured it. The value of the wheat is two thousand pounds, for which I have John Lord & Co.'s authority to draw a Bill on them at three days' sight. I draw the Bill of Exchange upon them in the following set :

1st.

MONTREAL, April 15, 1898.

Exchange for £2000.

Three days after sight of this first of Exchange (second and third of the same tenor and date unpaid), pay to the order of myself the sum of Two Thousand Pounds Sterling, for value received, and charge the same to the account of

J. W. JOHNSON.

TO MESSRS. JOHN LORD & Co.,
7 New Broad St.,
London, E. C., England.

2nd.

MONTREAL, April 15, 1898.

Exchange for £2000.

Three days after sight of this second of Exchange (first and third of the same tenor and date unpaid), pay to the order of myself, the sum of Two Thousand Pounds Sterling, for value received, and charge the same to the account of

J. W. JOHNSON.

TO MESSRS. JOHN LORD & Co.,
7 New Broad St.,
London, E. C. England.

3rd.

MONTREAL, April 15, 1898.

Exchange for £2000.

Three days after sight of this third of Exchange (first and second of the same tenor and date unpaid), pay to the order of myself, the sum of Two Thousand Pounds Sterling, for value received, and charge the same to the account of

J. W. JOHNSON.

TO MESSRS. JOHN LORD & Co.,

7 New Broad St.,

London, E. C., England.

I have now Exchange for sale, created by the export of the wheat, and the consequent debt to me of John Lord & Co. I shall sell it where I can obtain the highest price, and have offered it to several bankers; the Bank of Montreal having made the best offer, viz : 4.87 (*that is to say, \$4.87 for each pound), I dispose of the Bill of Exchange to that institution, indorsing it to the order of the Bank, and I also indorse the Bill of Lading over to the Bank, and likewise assign to it the policy of insurance.

The Bank having *bought* Exchange on London, or the debt owing to me there, is now in a position to *sell* Exchange on London. Here are a dozen Montreal merchants desirous of paying debts that they owe in London, and knowing that the Bank has Exchange for sale they will save the trouble and expense of transmitting bullion (gold or silver) by buying Bills drawn by the Bank of Montreal on its London agent for the various sums that they may require, and to the order of the persons to whom they are indebted, until the two thousand pounds, representing the export of the wheat, is exhausted. If the bank, in order to meet its customers' demands, should issue Bills to a larger amount than the two thousand pounds, it could make one remittance in coin to cover the overdraft. In actual practice,

* The par of Sterling Exchange is \$4.86 $\frac{2}{3}$. or 9 $\frac{1}{2}$ % over the old par, which was \$4.44 4-9. The rate of Exchange is the price at which it is being bought and sold daily. The Bank bought as above at \$4 87 (above par) and sold say at \$4.88.

however, this would not be necessary for any one day's transactions, for the Bank has other funds available in London, or if not, has credit, which is just as good. However, if the overdraft on its London correspondent continued, the Bank would require periodically to remit coin, or buy Exchange from some other Bank to remit. An estimate of the cost of sending a million dollars in gold across the Atlantic is given at page 64.

You will see from the above how large international transactions are conducted, and many acts of Exchange accomplished, by a single transfer of specie. Gold is the common denominator of value, Bills of Exchange represent it, and gold could be obtained for them, but it is not the actual medium of Exchange. The wheat that I exported paid for the importations of a dozen merchants, which is practically barter, where equivalent quantities of goods are made to pay for each other.

From the transactions in Exchange mentioned as occurring in one Bank in Montreal, let your mind dwell on the hundreds of similar transactions that are occurring daily in the great cities of the continent, in connection with their exports and imports, and you will understand when you read in the papers "that bullion has been shipped from England to America" (or vice versa) that one such transmission is the single settlement in coin for thousands of international transactions, whereby freight charges, insurance and actual loss of gold, that would be involved if each one had to ship gold to meet his individual debts, are avoided.

Par of Sterling Exchange Explained.

Previous to gold coinage by the United States, the Spanish or Mexican dollar was the standard unit of value upon the American continent, as the English pound sterling was the unit of value in Great Britain. The equivalent of the pound sterling in Mexican dollars was \$4.4444, which was the then par of exchange, and is now referred to as the "old par" of exchange, because it is not now

used. When the United States issued its coinage and made the gold dollar the standard unit of value, it made the intrinsic value of the coin just $9\frac{1}{2}$ per cent. less than the old Mexican dollar. It became necessary, therefore, to arrive at its just value, to add $9\frac{1}{2}$ per cent. to it, to make it the equivalent of the old Mexican dollar, and we thus have the anomaly of $9\frac{1}{2}$ per cent. advance, being the par of sterling exchange. Thus \$4.4444 multiplied by $.09\frac{1}{2}$ gives 42.22 cents, which, added to \$4.4444, makes \$4.8666, the present equivalent in Canadian or United States currency.

The Cost of Shipping Gold from New York to England.

The cost, as estimated in New York City, for shipping a million dollars in gold to England, to meet overdrafts, or in settlement between bankers, is as follows:

Loss of Interest, 8 days,	-	\$ 500
Insurance,	- - -	900
Freight,	- - -	1075
Cooperage, Cartage, etc.,	-	50
		\$2525

This amounts to slightly more than a fourth of 1% on a million. There would also be a slight loss from abrasion.

Buying a Bill of Exchange on London, and Making Entries for it.

You are making a remittance by Bill of Exchange to the firm of Leaf, Sons & Co., London, England, to meet an Acceptance of yours, due at their office in London two weeks hence, for £200. The rate is $10\frac{1}{8}$ (that is $10\frac{1}{8}\%$ over the old par of Exchange, $4.44\frac{4}{9}$, $4.44\frac{4}{9} \times 200 = 888.88$, and $888.88 + 10\frac{1}{8}$ of $888.88 = \$978.87$, which is the amount the Bill will cost you). As the rate includes the Bank commission you will give your Cheque for \$978.87 in payment for the Bill, and your entry will be:

Bills Payable, Dr.	\$978 87
To Bank	\$978 87

When you accepted the Draft for £200, you probably made the entry in blank, as follows :

LEAF, SON & Co., Dr.
To Bills Payable

Accepted their Draft at 60 days'
sight for £200, payable at their
office in London, B. P.—due.

The reason why the figures are not carried out is, that you cannot tell how much the Bill will cost, as the rate of exchange is constantly fluctuating. Carry out the figures when you remit and know the cost.

In the event of closing the books before remitting to retire a Sterling Acceptance, and consequently before knowing what it will cost, it is customary to anticipate some rate and if the actual cost differs from it, make a journal entry to adjust it. For example, you anticipated the rate of the above acceptance at $9\frac{1}{2}$ and carried out \$9,3.33, but it cost actually when remitting \$978.87. In addition to the entry—

Bills Payable, Dr. \$978 87
To Bank \$978 87

you will require to make another entry to adjust the difference as follows :

Discour. \$5 54
To Bills Payable \$5 54

and give explanation.

Bills in a Set.

Three, or at least two, Bills are issued in a Set of Exchange, (see pages 61 and 62) each part of the set being numbered, and containing a reference to the other parts ; the whole of the parts constitute one Bill, and one part having been paid the others are void. The original object of issuing more than one Bill was that they might be sent by different conveyances, and whichever one was presented to the drawee first was paid. When the ocean mails were carried by sailing vessels, delays were frequent. A vessel bearing the second of exchange, although sailing two weeks later than the one by which the first was sent, might reach its destination at an earlier date than the other. The punctuality of the ocean mails now, renders it usually unnecessary to remit more than one Bill of the set.

LETTER OF CREDIT.

A Merchant on this side of the Atlantic going to England to purchase goods and wishing to pay spot cash and secure the cash discount, as well as save the cost of remitting, will carry with him a Letter of Credit. The Letter of Credit is issued by his banker in Canada upon a Bank say in London, and authorizes the Bank in London to Cash Cheques or Drafts of the payee named in the Letter of Credit up to the limit stated in it. Or a Letter of Credit might convey from a Bank to its agent in another country, as in the example below, authority to cash Drafts up to the limit named, of one individual upon another, the individual upon whom the Drafts are to be drawn, being a Depositor of the Bank that issued the Letter of Credit.

COLONIAL BANK, BARBADOS, W. I., 26th January, 1898.

Messrs. Brown Brothers & Co.,
Agents Colonial Bank
New York.

DEAR SIRs,—

You are hereby authorized to cash the Gold Drafts, without deduction, of Mr. Belfield Grannum on Mr. E. F. Grannum of this Island, at 30 days' sight, to the extent of \$520, say Five Hundred and Twenty Dollars, this Credit to remain in force for three months from date.

The Messrs. Grannums' signatures were sent you last year.

I am, Dear Sirs,
Yours faithfully,
F. J. HOWELL,
Manager.

This places Mr. Grannum in the position to obtain funds from Brown Bros., New York, to the amount named, on the credit of the Colonial Bank, Barbados.

Circular Letters of Credit

are issued by some banks for use by travellers. They are more convenient than a Bill of Exchange, because money can be obtained upon them in various countries. The identification of the person to whose order a Circular Letter of Credit is drawn is established by his signature on the margin, certified by the banker who issued it.

Where he is an entire stranger, to prove his identity, he has only to submit his signature for comparison with that which he signed upon the margin.

Cheque Bank Cheques.

Another convenient form of carrying money whilst travelling is that provided by the Cheque Bank, Limited, of London, England, established 1873. Cheque Bank Cheques are supplied in books of any denomination of Pounds Sterling required, from £1 to £50. They can be filled out by the purchaser to any order, for any amount not in excess of their printed face value, and signed by the purchaser himself. They are thus his own private Cheque, drawn on the Cheque Bank, Limited, of London, and a guaranteed obligation of that bank. They are negotiable every where, in any country in the world, and will be cashed without advice or identification by the Bank's agents and correspondents. Hotels, shops and railways also cash them without question. They can be purchased in Canada and the United States in almost every city and town at local banks that are agents for the Cheque Bank, Limited.

Formula to Convert

Dollars into Pounds :

\$10.56 at \$4.95 per £1 = £2 : 2s. : 8d.

4.95) 10.56 (2.1333

990 20 (shillings in a £1).

600 2.6660

495 12 (pence in a shilling).

1650 7.9920

1485 or £2 2s. 8d.

165

Pounds into Dollars :

One penny = .004 ($\frac{4}{1000}$) of £1.

One Shilling = .05 ($\frac{5}{100}$) of £1.

£7 1s. 1d. therefore would equal :

1 penny = .004

1 shilling = .050

7 Pounds = 7.000

7.054

£7.054 multiplied by 4.95 = \$34.56

CHEQUES ON A BANK.

A Cheque is a Bill of Exchange drawn on a Bank, payable on demand.

Form.

STUB. No. 1,053. June 2nd, 1898, In favor of Geo. Ritchie & Co. \$75.50. In full of Account to date.		No. 1,053. Belleville, Ont., June 2nd, 1898. To the Canadian Bank of Commerce. (Belleville Branch.) Pay Messrs. Geo. Ritchie & Co., or order, Seventy-five 50/100..... dollars. \$75.50, (in full of Account to date.) ROBINSON & JOHNSON.
---	---	--

In the above example Robinson & Johnson have funds on deposit in the branch of the Bank of Commerce at Belleville, and desiring to pay George Ritchie & Co. the amount of their account, give them a cheque for \$75.50. The cheque drawn as above will serve as a receipt when it is paid, and received back from the bank, because it is payable to the order of the payee, names what it was given for, and must be indorsed by George Ritchie & Co. before they can transfer it, or draw the money on it.

Accepted Cheques.

On receiving a Cheque from the drawer, the payee should present it at once to the Bank for Acceptance, and within a reasonable time for payment. The ledger keeper is the officer who accepts it, and the teller the one who pays it.

Indorsing Cheques.

A Cheque payable to bearer is negotiated by delivery* ; one payable to order is negotiated by indorsement and delivery. The safest way is to make Cheques payable to order. See indorsements at pages 27, 28 and 29. Do not indorse a Cheque until you present it for payment, when you will indorse it in blank. If you transfer it, indorse it in full. If your name is misspelt indorse as it is written, then add your proper signature.

When drawing money from the Bank to put in the till, it is usual to draw the cheque payable to "cash or bearer." It would not do to draw it payable to "cash or order," for cash could not indorse it.

Important Judgment Respecting Cheques.

(From the Montreal Star.)

An important judgment for bankers and business men was rendered by Justice Jette in the Superior Court (Montreal) yesterday in the case of the Exchange Bank against the Quebec Bank in connection with the Varey defalcations. The liquidators of the Exchange Bank, Campbell, Mathews & Stearns, held a cheque for \$800 from one Trudeau. The Cheque was on La Banque du Peuple. The liquidators endorsed the Cheque "deposit." Varey, their confidential agent, presented that Cheque, which read, "In favor of Campbell, Mathews & Stearns, or bearer," and had it cashed, put the money in his pocket, and absconded. The plaintiffs sued the Quebec Bank, alleging that they had no right to cash the Cheque, as it was indorsed for deposit. The court held that the negotiability of a Cheque "payable to bearer" could not be restricted by any indorsement, and that the clerk of the Quebec Bank on receiving the Cheque in question was not bound to turn it over and look for any indorsation so long as the Cheque was on its face payable to bearer. The Quebec Bank, further, could not be accused of negligence in paying a Cheque drawn on another Bank, as Varey was known to them as a confidential agent of the plaintiffs. The action was therefore dismissed.

*Banks sometimes require a cheque payable to bearer to be indorsed, but it is usually a cheque drawn on another Bank, not accepted or marked good. The indorsement will be security on the part of the indorser in the event of the Cheque being dishonored when presented at the Bank it is drawn on.

Numbering Cheques.

Number your Cheques so that you may have the satisfaction of knowing that they have been returned ; preserve them, consecutively numbered, in packages, so that you can produce them at any time.

The Bank Account.

My experience as an accountant and auditor has convinced me that it is always the better way to show dealings with a Bank through a Ledger Account ; transactions are more easily traced, and not only is there less liability to error, but there is diminished opportunity for fraud.

The debtor side of the Bank Account shows deposits, discounts, and collections ; the Credit side, withdrawals (either by Cheque or Draft) and the Notes and Acceptances which you made payable at the Bank, and which have been charged to your Account at maturity. If the Dr. side is the larger, the difference is the amount on deposit ; if the Cr. side is the larger, the difference is the amount overdrawn. The Account closes either to or by balance.

Checking the Bank Account.

Leave your pass book in the Bank on the last day of each month to be balanced. About the 2nd or 3rd of the new month it will be handed to you (after you have signed an acknowledgment that the balance shown is right), together with the Cheques, Notes and Acceptances that have been paid and charged to your Account up to the end of the previous month. You will sometimes find that the balance in the Bank pass-book and the balance in your books do not agree. In this event find what Cheques are missing by noting the numbers that are absent, refer to the corresponding stub numbers, and you will find (unless mistakes have been made) that the sum of the absent cheques is the difference. The absent cheques had not been presented for acceptance when the pass-book was made up ;

you have credited the bank with them in your books, but they had not then been charged by the bank to your account, hence the discrepancy.

Keep Daily Track of Your Bank Balance.

It is a most unpleasant experience for a reputable business man when he has given a cheque in good faith, to have it returned with the remark, "no funds," and possibly notarial charges to pay. Men who have no financial reputation to sustain "don't care," and frequently put persistent creditors off temporarily by drawing cheques which they know there are no funds to meet. A man who wants to know daily how his balance stands, and who cannot keep the bank account in the ledger posted closely, can keep track of the bank transactions on the back of the stubs of his cheques as follows:—

The balance this morning was \$920.70.

\$100. \$57.20. \$60.30.

Three cheques were issued to-day, Nos. 129. 130. 131.

The proceeds of a note discounted amount to \$430.20.

A deposit was made to-day of \$600.

On the back of the stub of the last cheque issued write

Balance over,	.	.	.	.	.	\$920.70
Deduct						
Cheques Nos. 129,	.	.	.	.	\$100.00	
130,	.	.	.	.	57.20	
131,	.	.	.	.	60.30	
					<u>217 50</u>	
Add					\$703.20	
Proceeds of discount,	.	.	.	.	430.20	
Deposit,	.	.	.	.	600.00	1030.20
					<u>1030.20</u>	
Present balance,	.	.	.	.		\$1733.40

A man will not, unless he designs to do it, issue cheques for which there are no funds if he attends accurately to this matter each day.

Rate of Exchange on Cheques.

Cheques presented at any other branch of the Bank than that in which the drawer's funds are on deposit, are subject to a deduction for Exchange of $\frac{1}{4}$ of 1%. You should therefore make your Cheque for the amount of the debt and the Exchange, if it is to be paid at another branch. If you keep a fair balance with your banker on which no interest is allowed, he may grant you the concession of marking your Cheque payable at par at the branch where it will be presented for payment.

Precaution Against Fraud.

Draw your Cheques so that they cannot be raised or altered. In the example given at page 68, you will observe that there is no unfilled space to the left of the written amount, and the fraction (or if no fraction $\frac{00}{100}$) follows close up to it on the right. Neither on one side nor the other can any word be added. If you fail to observe such a precaution, and by your carelessness invite fraud, and it should succeed, you, and not the bank, will be the loser. If the bank pays a forged Cheque, the bank will be the loser.

(From The Toronto Mail—Montreal Correspondence.)

Gigantic Fraud.

**A MONTREAL BANK VICTIMIZED TO THE TUNE OF \$25,000
BY A RAISED CHEQUE.**

One of the most daring cases of fraud ever recorded in this city was perpetrated to-day. Charles Page, a clerk in the employ of Beauchemin & Valois, booksellers of St. Paul street, yesterday afternoon received a Cheque signed by the firm on the Banque du Peuple and payable to bearer for \$25. The Cheque was accepted by the Bank, and Page then coolly went to work and raised it to twenty-five thousand dollars by adding the three decimals to the figures in the corner and writing the word "thousand" in the

body of the Cheque. Thinking that it would be risky for him to present a Cheque for such a large amount of money, he cutely went to a friend of his, Mr. Jos. Duclos, of the firm of Jos. Duclos & Co., commission merchants, and stating that he was not well-known at the Bank asked him to go over to the Jacques Cartier Bank, with which Duclos had extensive dealings, and get it cashed for him. Mr. Duclos consented, and going to the Bank received the \$25,000 in hard cash, which he handed to Page, who had remained waiting outside. Page thanked his friend for his kindness and coolly took his leave. Shortly afterwards the Cheque in question, with a number of others, was sent over to the Banque du Peuple, on which it was drawn, when the fraud was immediately discovered. The alarm was given, the Jacques Cartier Bank was notified, and in a few minutes the whole detective force of the city was on the lookout for Page, but he was nowhere to be found.

Decisions of the Courts on Raised Cheques.

The Supreme Court, the United States Circuit Court and the Court of Common Pleas have rendered the following decision :

"The maker of a Cheque is obliged to use all due diligence in protecting it; the omission to use the most effectual protection against alterations is evidence of neglect, which renders him responsible for the fraudulent amount, the bank being responsible only for the genuineness of the signature, and ordinary care in paying the Cheque."

The United States Circuit Court gave the opinion, "if there was nothing unusual in the appearance of a raised Cheque, nothing sufficient to put a careful person on his guard, the bank should not be held responsible for paying it."

The courts have decided that the maker of a Cheque alone is responsible. If the Cheque is drawn in an incomplete manner, he himself prepares the way for fraud, and if committed, he and not the bank suffers whatever loss is sustained.

Identifying Strangers on Cheques.

Take care, when identifying a payee on a Cheque or Draft to enable him to draw money, that you do not incur responsibility. For example : John Jones, whom you know, wants you to identify him on a Cheque or Draft payable to his order that has not been accepted. He indorses it ; underneath his signature write, " Identified by," and sign your name. Doing this, you only certify that he is John Jones ; but if you simply indorse your name under his, you would guarantee both the man and the money. He may say, " but I cannot get the money on personal identification only ;" your reply would be, " well, let it be sent for collection, I decline to incur any responsibility beyond identifying you." You may not get up a reputation as an " obliging fellow," but you will have the satisfaction of knowing that you are safe.

Crossed Cheques.

When it is intended that a Cheque shall not be negotiable, except through a bank, it is crossed.

1. Where a Cheque bears across its face an addition of :—

(a) The word " bank " between two parallel transverse lines, either with or without the words " not negotiable," or

(b) Two parallel transverse lines simply, either with or without the words " not negotiable ;"

That addition constitutes a crossing, and the Cheque is crossed generally.

2. Where a Cheque bears across its face an addition of the name of a bank, either with or without the words " not negotiable," that addition constitutes a crossing, and the Cheque is crossed specially, and to that bank.

A Cheque may be crossed generally or specially by the drawer.

3. Where a Cheque is uncrossed, the holder may cross it generally or specially.

4. Where a Cheque is crossed generally, the holder may cross it specially.

5. Where a Cheque is crossed generally or specially, the holder may add the words "not negotiable."

6. Where a Cheque is crossed specially, the bank to which it is crossed may again cross it specially, to another bank for collection.

7. Where an uncrossed Cheque, or a Cheque crossed generally, is sent to a bank for collection, it may cross it specially to itself.

8. A crossed Cheque may be re-opened or uncrossed by the drawer, writing between the transverse lines, and initialing the same, the words "pay cash."

Book-Keeping Entries for Cheques.

When you deposit in the bank, you make the bank Dr. to Cash. When you draw a Cheque, credit the bank and debit the person to whom, or the account for which, it has been issued. When you receive a Cheque, make Cash Dr. to the person from whom, or the account for which, you receive it.

Cheques may be posted direct from the stubs to the ledger, or they may be journalized or put through the cash book, and from there posted to the ledger. It is not necessary to credit each Cheque singly. The Cheques issued in a day or a week or a month may be credited in one sum to the bank account. Four Cheques were issued to-day, journalize them from the stubs as shown on page 76.

QUESTIONS FOR REVIEW.

INTRODUCTORY.

What is the British North America Act? When did it come into force? What Parliament has the power to deal with Bills and Notes? What is the Dominion Statute called which codified the laws relating to Bills and Notes? What is Common Law? What is Statute Law? From what has the Law relating to Bills of Exchange grown? What is the Law-making power of merchants known as? Give two illustrations of the controlling effect of the Law-merchant.

What are the commonest forms of Contracts? Name the two kinds of Contracts? How may Simple Contracts be made? How must Specialty Contracts be made? What is essential in every Contract? When suing on a Simple Contract what must be proved? Does this requirement apply to a Specialty Contract? What is the exception to the general rule with respect to Notes and Bills? When is a Simple Written Contract duly made? When is a Specialty Contract duly made? What may a consideration be? What is the Statute of Frauds and when was it passed? It requires that certain Simple Contracts shall be in writing; name the principal cases. What Contracts must be not only in writing, but be under Seal? What may be recalled and what may not be recalled? What is a Seal? Who are competent to make a Contract? What would be a Contract against public policy? What is a minor? What must be attached to a Contract with a corporation to make it binding? How is authority conferred upon an agent? How does the agent sign? In making a Contract by correspondence what is required? What do the words "Without Prejudice" mean? When do Contracts become outlawed? What is Negotiable Paper? Name some negotiable instruments?

QUESTIONS FOR REVIEW.

NOTES.

State the advantages of holding a note against a debtor. State the disadvantages. Explain the term "discounting a note." Give a definition of a Promissory Note. What is meant by a determinable future time? Name the parties to a note. To what extent may *one partner* make notes? How are notes transferred? When may notes be transferred? Explain a negotiable note, a note negotiable without indorsement; a note negotiable by indorsement. Give the form of a non-negotiable note; a note negotiable by indorsement; a note negotiable without indorsement; a note payable on demand; a joint and several note. Explain a joint and several note. What is a marksman's note? Explain a joint note. What are the rights of a third party in a negotiable note? What are the rights of an assignee of a non-negotiable note? Explain an accommodation note. Give an example, and state why it is made payable to the order of the indorser and not to the order of the lender. Is a note good that is made payable after death? What may be done in regard to a lost note? Discrepancy between words and figures, which is payable? Name circumstances that do not invalidate a note. What is a holder in due course? What must be done on a note given for a patent right? What is the effect of altering a note? Explain what is meant by the legal rate of interest. Under what circumstances would you insert the words, "AS WELL AFTER AS BEFORE MATURITY UNTIL PAID" in a note bearing interest? What is a usury law? What are days of grace? When would a note drawn 3 months from October 26 fall due? When would a note drawn at ninety days from October

26th fall due? When would a note drawn at nine months from May
 29th fall due? What is a power of attorney? How does the
 holder of a power of attorney sign business papers for his principal?
 What does the abbreviation *per pro* stand for? When does a note
 become outlawed in Ontario? What is the Statute of Limitations?
 What is the act of indorsing? What are its effects? Explain
 indorsement in blank, and what may the holder do? Explain
 indorsement in full; qualified indorsement; restrictive indorsement;
 indorsement for deposit only. How could you prove the payment of
 a note? What is the order of indorsers' liability? Explain
 guarantee on a note. Where should a note be presented for
 payment? What are the proceedings to be taken to hold indorsers
 on a note not paid at maturity? If the services of a notary cannot
 be obtained, who may perform his functions? What is waiving
 protest? Give examples? Why is it unnecessary to protest a note
 on which there is no indorser? What is noting? How should
 partial payments be acknowledged on notes? When you have paid
 a note, what should you do with it? When renewing your note,
 what should you receive? What is a bill receivable? What is a
 bill payable? In book-keeping, what are the accounts representing
 notes called? Analyse the bills receivable and bills payable accounts.
 Give the entries of the maker having a note renewed. Give the entries
 of the holder when renewing a note. Give the entries of each for
 partial renewals. State two important points in connection with bills
 receivable and bills payable accounts. What is the authorized
 method of working discount? Give journal and cash book entries.
 The same for notes bearing interest. Quote from the Bills of
 Exchange Act respecting days of grace. What is a non-juridical
 day? Explain a Lien Note. Is a Lien Note negotiable? Which
 Legislature deals with Lien Notes? What is an I. O. U.?

QUESTIONS FOR REVIEW.

DRAFTS.

Give a definition of a Draft or Inland Bill. Explain the difference between a Note and a Draft. How many parties are there to a Draft? Name them. Explain each one's position. Which one accepts the Draft? What party to an acceptance stands in the same position as the maker of a note? What party to a draft stands in the same position as the first indorser on a note? To hold the drawer of a dishonored bill what must be done and when? Explain the theory of exchange. Give an example of a draft with three firms or persons and two debts concerned. How is a draft payable ten days after *sight* accepted? How is a draft payable ten days after *date* accepted? From what date do you reckon the maturity of a draft drawn ten days after sight? From what date do you reckon the maturity of a draft drawn ten days after date? What is a draft called after it has been accepted? Under what circumstances are the drawer and payee of a draft the same person? To whose order is it made payable? Give the drawer's entry for a time draft. Give the payee's entry. Give the drawee's entry. Give an illustration of exchange. State the acceptor's liability. State the drawer's liability. State the indorser's liability. In case of dishonor, who may recover and what? What will be done when a draft is dishonored? How may protest be avoided if desired? Give definition and requisites of acceptance. How many days has a drawee for the acceptance of a draft before it can be regarded as dishonored? Explain what is due presentment for payment. What is meant by accepting a draft *supra* protest? What is meant by paying a draft *supra* protest? What is the usual rate of bank commission for collecting drafts? How will you insure the collection of a definite sum when you cannot tell how much the exchange will be? Name the three kinds of drafts. Explain each. To give a person four clear days to pay a draft, no matter how long it may take to reach him, how would you

draw it? To give him fifteen days? To give him three days? To give no time? What is an accommodation draft? What expression is used to describe this method of raising money? How would you proceed to obtain assistance by draft to retire an acceptance or note? What is the object of a bank draft? What does par mean? Entries when buying a bank draft? When is a draft called a foreign bill of exchange? What was its origin? Give an illustration of foreign exchange. How many bills are usually issued in a set of exchange? Why is more than one issued? Give the form of the first bill in a set of exchange? The second? The third? Explain the par of sterling exchange? What is the cost of shipping gold from New York to England? Entries when buying a bill of exchange on London? What is a letter of credit? What is a circular letter of credit? What are Cheque Bank Cheques? Convert dollars into pounds? Convert pounds into dollars?

QUESTIONS FOR REVIEW.

CHEQUES.

Give a definition of a cheque. Give a form. How is a cheque drawn that it may serve as a receipt? What act of the payee would prove payment? Explain what is an accepted cheque. What officer of the bank accepts it? What officer of the bank pays it? How is a cheque payable to bearer negotiated? How is a cheque payable to order negotiated? When should you indorse a cheque? Why should cheques be numbered? How should cheques be preserved? Analyse the bank account. How should you check the bank account? If a discrepancy exists between the pass book, when balanced, and your account, how do you find the cause? State a simple method of keeping daily track of your balance in bank. What is the rate of exchange charged on cheques? When is it charged? Cheques payable at par at another branch, explain. How will you take precaution against fraud? How would you identify a payee? What are crossed cheques? Give journal entries for cheques. Put cheques through the cash book.

Institute of Chartered Accountants—Examinations in Negotiable Instruments.

November, 1895.

1. In a Promissory Note signed by two or more persons, what is the respective significance of "I," "We," "We jointly," "We jointly or severally"?
2. In what several ways may the liabilities of the respective parties to a Bill of Exchange come to an end?
3. What are the remedies of the holder of a Bill of Exchange or Promissory Note in the event of his losing the bill or note?
4. What are the essential contents of a Protest of a Promissory Note or Bill of Exchange?
5. What principles of law apply to the transfer of overdue bills?
6. Where there are several endorsers upon a Promissory Note, what are the rights of the endorsers respectively as against the others?
7. What may constitute a valid defence in an action against the maker of a note?
8. What is the legal effect of the words written upon the face of a cheque, "in full of account to date"?
9. Give a form of waiver of protest.
10. What is the limit of time within which an action may be brought to recover the amount due upon a Promissory Note, Cheque or Bill of Exchange?

May, 1897.

- Question 1 (a) What are the differences between a Bill of Exchange and a Promissory Note?
- (b) Wherein does a cheque differ from them?

- Question 2 What is the effect on a note :
- (a) If it is not dated ?
 - (b) If it does not specify that value has been given ?
 - (c) If it does not specify the place where it was drawn ?
 - (d) If it does not specify where it is payable ?
 - (e) If it bears date of a Sunday ?
- Question 3 What liabilities are incurred in connection with a Bill of Exchange by :—
- (a) The drawer ?
 - (b) The Acceptor ?
 - (c) The Endorser ?
- Question 4 What are the rules as to presentation for payment of Bills ?
- Question 5 Is there any particular legislation in connection with the giving of a note for a "Patent Right?" If so, state fully the provisions.
- Question 6 What is meant by,
- (a) "Acceptance for Honor *Supra* Protest" ?
 - (b) "Payment for Honor *Supra* Protest" ?
- What are the requirements for the validity of each?
- Question 7 When acceptance of a Bill is refused how long after presentation must it be treated as dishonored for non-acceptance, in order to hold,
- (a) The endorser ?
 - (b) The drawer ?
- Question 8 "A," the holder of a note, transfers it to "B" for value, but does not endorse it. What is the position of "B" in regard to the further negotiations of the note ?
- Question 9 What liability, if any, does the holder of a cheque incur by not presenting it for payment within a reasonable time ?
- Question 10 Explain
- (a) "Crossing" cheques,
 - (b) Who may "Cross" them,
 - (c) What protection, if any, is guaranteed by such 'Crossing.'

December, 1897.

- Question 1 Define the difference between "Negotiable" Promissory Notes and "Not Negotiable" Promissory Notes. Illustrate by examples.
- Question 2 A cheque is drawn on a bank in favor of cash or order. Should the bank pay this cheque? Give your reasons.
- Question 3 Give definition of the following :
 Cheque.
 Promissory Note.
 A Foreign Bill.
 Order.
 Bank Draft.
 Deposit Receipt.
- Question 4 What is the object or force of an endorsement on a note or bill of exchange?
- Question 5 Describe various ways of endorsing bills and give examples.
- Question 6 What do you mean by the holder of a promissory note? Does it affect his position or his rights, if he acquire it before or after its due date?
 Supposing Brown gives Jones a note and Smith is the holder for value: What is Smith's position in above question?
- Question 7 What are Patent Right Bills? and how do they differ from any ordinary Bill?
- Question 8 How does the Statute of Limitations apply to—
 (1) a Cheque,
 (2) a Promissory Note.
 (3) a Bank Note or Bank Bill?
- Question 9 In the course of business you, "C," have received a note made by "A" in favor of "P." At maturity this note is dishonored. Show all the Journal entries you would make, and also describe the necessary steps to protect your interests.
- Question 10 Briefly describe some "Negotiable Instruments" not mentioned in this paper.

Forms of Protest.

PROTEST FOR NON-ACCEPTANCE OR FOR NON-PAYMENT OF A
BILL PAYABLE GENERALLY (THAT IS AT NO
STATED PLACE).

(Copy of Bill and Indorsements.)

On this _____ day of _____, in the year 18____.

I, A. B., Notary Public for the Province of _____, dwelling
at _____, in the Province of _____ at the request of _____
_____ did exhibit the original bill of exchange, whereof a
true copy is above written, unto E. F., the { drawee } thereof
personally (or at his residence, office or usual place of business) in
and, speaking to himself (or his wife, his clerk, or his
servant, &c.) did demand { acceptance } thereof; unto which demand
{ he } answered: " _____"
{ she } " _____"

Wherefore I, the said Notary, at the request aforesaid, have protested, and by these presents do protest against the acceptor, drawer and indorsers (*or* drawer and indorsers) of the said bill, and other parties thereto or therein concerned, for all exchange, re-exchange, and all costs, damages and interest, present and to come, for want of { acceptance }
 { payment } of the said bill.

All of which I attest by my signature.

(Protested in duplicate.)

[Seal] A. B.,
 Notary Public.

PROTEST FOR NON-ACCEPTANCE OR FOR NON-PAYMENT OF A
BILL PAYABLE AT A STATED PLACE,

(Copy of Bill and Indorsements.)

On this day of , in the year 18 ,
I, A. E., Notary Public for the Province of , dwelling
at , in the Province of , at the request of
 , did exhibit the original bill of exchange, whereof a
true copy is above written, unto E. F., the { drawee } thereof,
 { acceptor }
at being the stated place where the said bill is payable, and
there, speaking to did demand { acceptance } of
 { payment }
the said bill ; unto which demand he answered : “ .”

Wherefore I. the said Notary, at the request aforesaid, have
protested, and by these presents do protest against the acceptor,
drawer and indorsers (*or* drawer and indorsers) of the said bill, and
all other parties thereto or therein concerned, for all exchange,
re-exchange, costs, damages and interest, present and to come, for
want of { acceptance } of the said bill.
 { payment }

All of which I attest by my signature.

(Protested in duplicate.)

[Seal.] A. B.,
 Notary Public.

PROTEST FOR NON-PAYMENT OF A NOTE PAYABLE GENERALLY
(THAT IS AT NO STATED PLACE).

(Copy of Note and Indorsements.)

On this day of , in the year 18 ,
I, A. B., Notary Public for the Province of , dwelling
at , in the Province of , at the request of
 , did exhibit the original promissory note, whereof a
true copy is above written, unto , the promisor,
personally (*or*, at his residence, office *or* usual place of business) in

, and speaking to himself (or his wife, his clerk or his servant, &c.), did demand payment thereof; unto which demand { he } answered: " ."
 { she }

Wherefore I, the said Notary, at the request aforesaid, have protested, and by these presents do protest against the promissor and indorsers of the said note, and all other parties thereto or therein concerned, for all costs, damages and interest, present and to come, for want of payment of the said note.

All of which I attest by my signature.

(Protested in duplicate.)

[Seal.] A. B.,
Notary Public.

PROTEST FOR NON-PAYMENT OF A NOTE PAYABLE AT A
 STATED PLACE.

(Copy of Note and Indorsements.)

On this day of , in the year 18 ,
 I, A. B., Notary Public for the Province of , dwelling
 at , in the Province of , at the request of
 , did exhibit the original promissory note, whereof a
 true copy is above written, unto the promissor, at
 , being the stated place where the said note is payable, and
 there, speaking to did demand payment of the said
 note, unto which demand he answered: " ."

Wherefore I, the said Notary, at the request aforesaid have protested, and by these presents do protest against the promissor and indorsers of the said note, and all other parties thereto or therein concerned, for all costs, damages and interest, present and to come, for want of payment of the said note.

All of which I attest by my signature.

(Protested in duplicate.)

[Seal] A. B.,
Notary Public.

NOTARIAL NOTICE OF PROTEST FOR NON-PAYMENT OF A NOTE.

(Place and Date of Protest.)

To

a

Sir,

Mr. P. Q.'s promissory note for \$, dated at

, the

payable { days
months } after
on—date to { you
E.F. } or order, and indorsed by you, was this day, at the
request of , duly protested by me for non-payment.

[Seal.] A. B.,

*Notary Public.*NOTARIAL SERVICE OF NOTICE OF A PROTEST FOR NON-ACCEPTANCE
OR NON-PAYMENT OF A BILL, OR NON-PAYMENT OF A NOTE*(to be subjoined to the protest.)*

And afterwards, I the aforesaid Protesting Notary Public, did
serve due notice, in the form prescribed by law, of the foregoing
protest for { non-acceptance
non-payment } of the { bill
note } thereby protested
upon { P. Q.,
C. D., } the { drawer
indorsers } personally, on the
day of (or at his residence, office, or usual place of business) in
, on the day of, ; (or, by depositing such
notice, directed to the said { P. Q.,
C. D., } at , in Her Majesty's
post office , in on the day of
, and prepaying the postage thereon).

In testimony whereof, I have, on the last mentioned day and year,
at aforesaid, signed these presents.

[Seal.] A. B.,

Notary Public.

On this _____ day of _____, in the year 18____, I, N.O., one of Her Majesty's justices of the peace for the district (or county, etc.), of _____, in the Province of _____, dwelling at (or near) the village of _____, in the said district, there being no practising Notary Public at or near the said village (or any other legal cause), did at the request of _____, and in the presence of _____, a householder in the said district, well-known unto me, exhibit the original { bill } whereof a true copy is above written unto P. Q., the { drawer } thereof, personally (or at his residence, office, or usual place of business) in _____, and speaking to himself (his wife, his clerk, or his servant, &c.), did demand { acceptance } thereof, unto which demand { payment } he answered : " _____ " she

Wherefore I, the Justice of the peace, at the request aforesaid, have protested, and by these presents do protest, against the

{ drawer and indorsers promissor and indorsers acceptor, drawer and indorsers }	of the said	bill note	and all other
---	-------------	--------------	---------------

parties thereto and therein concerned, for all exchange, re-exchange, and all costs, damages and interest, present and to come, for want of

acceptance payment	of the said	bill. note.
-----------------------	-------------	----------------

All which is by these presents attested by the signature of the said
(the Witness) and by my hand and seal.

(Protested in duplicate.)

(Signature of Witness.)

(Signature and Seal of J. P.)

CANADA'S STANDARD BUSINESS BOOKS DESCRIBED.



A 32 Page Catalogue describing

“The Canadian Accountant,”

NOW IN THE 11th EDITION,



“Joint Stock Company Book-keeping,”

NOW IN THE 8th EDITION,



“Promissory Notes, Drafts & Cheques”

NOW IN THE 7th EDITION,

Will be forwarded Free to any address throughout the world.



These Books have a wider demand than any similar
works published in Great Britain or America.

Address,

ROBINSON & JOHNSON, F. C. A.,

Ontario Business College,

Belleville, Canada.

ESTABLISHED IN 1868.

THE FAMOUS Ontario Business College,

(Affiliated with the Institute of Chartered Accountants.)



21 YEARS UNDER THE
SAME PRINCIPALS. - -



The Institution continues to occupy its pre-eminent
position as the most

Thorough and Most Widely Attended

Business College in America. Every section of Canada and the
United States, ten of the West India Islands, South
America and England have been represented
among its students.

THE ELEVENTH EDITION OF

"The Canadian Accountant,"

The Celebrated Text Book of the O. B. C., which is in demand
throughout the English speaking world, was recently
issued from the press.



A record of such exceptional success in teach-
ing and in authorship, places ONTARIO BUSINESS
COLLEGE far in advance of any similar Institution
in reputation and influence.

Send for the O. B. C. Catalogue. 

ADDRESS,

ROBINSON & JOHNSON, F. C. A.,
BELLEVILLE, ONTARIO, Canada.